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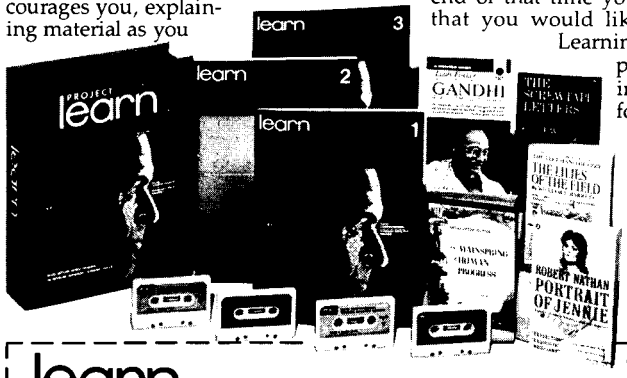

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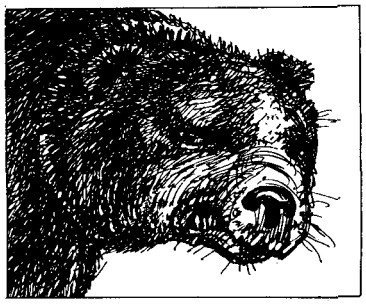

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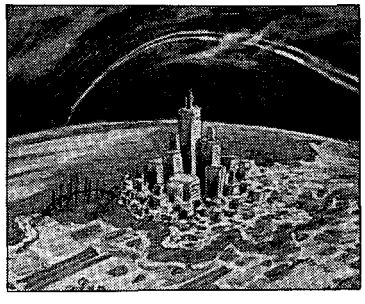

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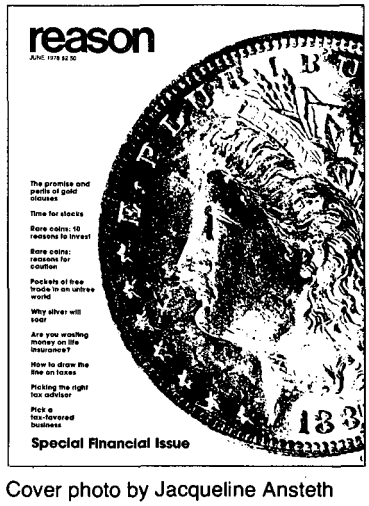
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letters

Non-zoning Opportunities

As a native Texan and two year resident of Houston, I was very happy to seen your article on our fair, non-zoned city [February]. I moved to Houston for various reasons and zoning was not a consideration. Being indoctrinated by growing up in a zoned city, I had no idea that a city could survive without zoning. It took only a short time to realize the amount of freedom that is afforded the resident of Houston compared to a resident of my former home city.

My partner and I have always dreamed of owning a bookstore, but never had enough money to invest in it. We now own a bookstore, mainly because of non-zoned Houston. The store is in the front room of our house and by placing it there we saved the huge costs of finding commercial property, not to mention utilities, that would have been necessary in our former home city. Our store is doing well and numerous customers tell us how much they like shopping in a small business such as ours compared to a corporate store where they feel no response from a corporation to their individuality. Houston provides us with a choice. With no zoning Houston helps encourage small businesses and their growth, which I believe is a strong factor in Houston's amazing and continuing economic growth. Houston also creates an atmosphere where major corporations and small businesses can live side by side and compete fairly with the consumer deciding where he wants to shop, not the city planners.

My partner and I are by no means well-off. We are lower to middle income people who work an average of 11 hours a day at outside jobs and our store in order to shape our future. And we love doing it. But only in Houston were we able to have this opportunity.

Ken Cyr
Houston, TX

Zoning and Speculators

Three cheers for Houston ["Houston Defies the Planners . . . and Thrives" February] and its non-use of zoning. I just know it has to be a dynamic, creative city.

I have always considered zoning a program of legitimizing what already has made obvious economic sense, and that is why cities always have to make new general plans every few years. Zoning doesn't really control anything, but it does make certain people richer when they can get the zoning changed when they happen to own the property in question. As soon as the density or use is increased, the land value climbs overnight, and often those who are selling the changed zoning also have a vested interest in getting the change made on their schedule.

I'm a firm believer that land speculation is detrimental to society in general, and cities in particular; zoning is a speculator's tool. It takes from the society without the concomitant productivity, and a natural inflation force continues unabated.

Clay Berling
Berkeley, CA

Weapons Choices

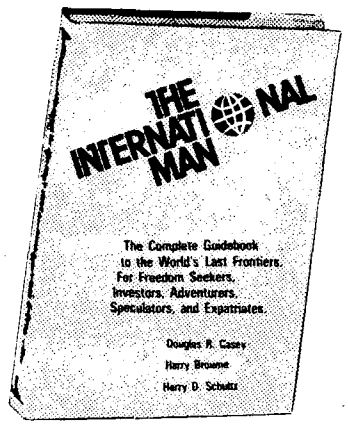
Robert Poole's editorial "Weapons Choice and Lesser Evils" [January] concerning the neutron bomb is a valuable contribution to better understanding of what a proper libertarian defense policy should be.

Poole's clear, factual, and logical presentation contrasts sharply with the nonsense cited by Bill Birmingham in "Brickbats" (same issue). Birmingham quotes Council on Foreign Relations fellow Alton Frye who advocates purchasing "conventional munitions" instead of neutron bombs. Birmingham then makes the incredible assertion that conventional weapons "wouldn't harm civilian lives or property." Where has Birmingham been? The fact is "conventional" munitions kill just as dead and can eliminate property just the same as unconventional ones. Surely, there must be some vet he knows from Nam or Korea or someplace who could explain the killing power and destructiveness of non-nuclear devices. Or maybe he could be persuaded to watch some old war movies!

And just who will be the ones to man and pay for the people required to effectively launch the "100,000 precision-guided conventional munitions" he seems to prefer to neutron warheads? Do we reinstitute the draft to provide the tens of thousands of missile crewmen and technicians in the field and the hundreds of thousands of support personnel required? Or do we just pass out one "con-

(*Continued on p. 8.*)

Where Are the World's Last Frontiers of Freedom and Financial Opportunity?


THE INTERNATIONAL MAN
The Complete Guidebook to the World's Last Frontiers. For Freedom Seekers, Investors, Adventurers, Speculators, and Expatriates.
Douglas R. Casey
Harry Browne
Harry D. Schultz

Some people say there are no more opportunities left in the world. They'll tell you that the opening of the American West was the last chance for the average person to find freedom, adventure and financial success.

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WHO IS DOUGLAS CASEY?

But where can you learn about these opportunities? In only one place: THE INTERNATIONAL MAN: *The Complete Guidebook to the World's Last Frontiers for Freedom Seekers, Investors, Adventurers, Speculators and Expatriates.*

This brand-new, pathbreaking book was researched and written by Douglas R. Casey, a businessman, financial consultant and world traveler who has long understood the dangers of limiting one's horizons to a single country. (The preface and foreword were written by two of the most respected financial authorities in the world, Harry Browne and Harry D. Schultz, both American expatriates.)

Casey began by making a thorough investigation of all 159 of the world's nations. He discovered a handful that hold real promise for Americans in search of freedom and financial opportunity today. These few countries are truly the world's "last frontiers."

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- The profits and pleasures of foreign real estate. (Including specific "how-to" information on income property investments, speculating in raw land, and buying or renting a second home abroad.)
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- Nations that offer substantial financial incentives and subsidies to foreign investors, businessmen and retirees.

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"Doug Casey's book THE INTERNATIONAL MAN fills a *true* need, in fact a desperate need. . . . I urge you to take advantage of this book and become an international person. . . . If you're not too good at changing to match the times, you'd better read this book *three* times. The rest of you should read it *twice*."

HARRY BROWNE, best-selling financial writer:

"The economic tensions and turbulence of the 1970's have inspired many Americans to consider the idea of living and investing somewhere outside the U.S. But where? . . . Up to now, there has been no single reference work that provides an overview of the world's 200 or so nations. . . . Happily, this book provides a kind of shopping list of qualifications. . . . I've lived outside the U.S. since 1971 and have learned a great deal about what it involves. I could have used a book like this back in 1971; it would have made emigration a great deal easier."

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Dodging the Falling Dollar

editorial

Scarcely a day goes by without new headlines on the decline of the dollar. In just the past 12 months it has dropped 16 percent against the Deutschemark, 20 percent against the yen, and 30 percent against the Swiss franc. In February the Saudi Arabian government shifted its monthly cash surplus of nearly $1 billion into Deutschemarks and Swiss francs; previously, 90 percent of Saudi cash had gone into dollars. Also in February, the 1975 IMF agreement that central banks would not buy gold expired—and some banks immediately began to buy. Newly released figures showed that the proportion of central bank reserves kept in non-dollar currencies had climbed from 7.5 percent in 1970 to 19 percent in 1976. (Nobody would hazard a guess what 1977's figures will show.) In March the Abu Dhabi newspaper *Al Wahda* urged the oil-producing Arab countries to abandon the dollar, demanding payment in a harder currency, in order to preserve their "national wealths." By the time you read this, the OPEC ministers may well have announced a decision tying the price of oil to a currency other than the dollar.

What is going on here? Why this headlong flight from the dollar? As usual, our political "leaders" and their lackeys in the media have done more to obscure than to explain the situation. "Oil imports!" they bleat in chorus. "If only we weren't sending $45 billion overseas to pay for Arab oil, the world would not be awash in unwanted dollars." But this conveniently jingoistic answer overlooks one crucial detail: why aren't Germany and Japan, which must import a far greater percentage of their oil, suffering similar currency problems? Why are their currencies, in fact, growing stronger month by month while ours continues to weaken?

The answer is really quite simple. The dollar is worth less and less abroad because it is worth less and less at home. The Arabs, the gnomes of Zurich, the money traders of Hong Kong, and their counterparts elsewhere are no fools. They understand that US inflation is destroying the value of the dollar. And what's more, *they* understand—even if the average TV-addicted American does not—that inflation is not caused by higher oil prices or coal industry wage settlements. Inflation is caused by government expansion of the money supply, to keep our politicians living beyond our means. It is no accident that "the Arabs have become rabid monetarists," as *Business Week* recently noted. "These Saudis and Kuwaitis watch the Thursday money supply figures every week."

The past few months have revealed some glimmers of understanding in Washington and the media. *Time* reports that public opinion polls, economists, and government economic policy makers are all agreed that inflation has become the nation's number one economic problem. But few have linked the dollar's travail to inflation, except the *Wall Street Journal's* Vermont Royster. In a recent column Royster alone asked the question nobody else would raise: "With the purchasing power of the dollar steadily declining in our own country, why should we expect foreigners to be eager to buy or hold them?"

What can we expect the Carter administration to do about the nation's number one economic problem? Precious little. In his first year in office, Carter and his Congressional majority gave us a costly new bureaucracy (the Department of Energy), a federal budget exceeding $500 billion, and a first-year deficit of over $50 billion. On this year's agenda are massive new farm subsidies, the beginnings of a national health insurance program, Congressional increases in the defense budget, and the Humphrey-Hawkins bill—all of which will likely push the federal deficit near the $100 billion mark this year. Financing that deficit, plus another $50 billion or so in borrowing by off-budget agencies, will soak up the majority of the nation's available capital—unless the Federal Reserve pumps out more money to keep the wheels turning. And that, of course, will stoke up still more inflation.

In the face of these realities, President Carter's "anti-inflation" plan—talking business and labor into moderating wage and price hikes, requiring inflation impact reports from federal agencies, slapping price controls on hospitals—would be laughable, if the subject weren't so serious. Yet that kind of pious hand-waving is all we're likely to get. Not slashes in government spending, not cuts in money creation, not large-scale tax cuts (which just might lead to reduced deficits by stimulating investments and employment), not a return to the discipline of a gold standard.

It isn't as if these were impossible dreams. Inflation in West Germany has been cut dramatically by modest doses of this sort of medicine—from 6 percent in 1975 to 3.9 percent in 1976 to as low as 1.8 percent in the last quarter of 1977. Inflation in Switzerland seldom exceeds 2 percent...in a bad year.

And the gold standard is staging a minor comeback in respectability, thanks to such works as Roy Jastram's *The Golden Constant.* That book chronicles the amazing 200-year price stability in England under the gold standard—and the 1148 percent inflation that has occurred there since it was abandoned in 1930. And when the *Wall Street Journal* calls for a return to the gold standard as the only way to end inflation (as associate editor Jude Wanniski did on March 15), it's a clear sign that things are looking up—at least in a few corners.

That's all well and good, you may say, but the *Journal* doesn't run the government. Those who *do* run it seem trapped by their political commitments into continuing inflation. In light of all this, what is the individual to do?

That is the question we addressed in preparing this fifth annual Special Financial Issue of REASON. As in past editions, one basic message comes through loud and clear: it's hard to go wrong if you bet on continued inflation. Hence, investments that protect your assets from the shrinking dollar—hard currencies, precious metals, gold and silver coins, real estate—find favor with our contributors. (Those, incidentally, are where many Japanese and Arab investors in the United States are putting their funds.) Also worth considering as a protective mechanism is the gold clause contract, explained in detail in this issue.

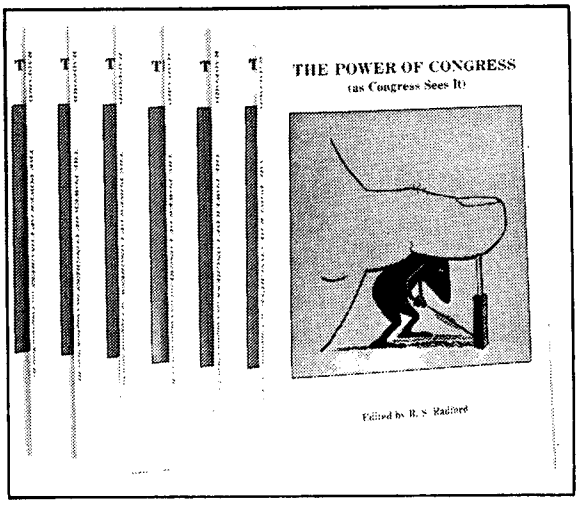
But it's also important to remember that inflation proceeds in cycles. At *some* point, the pressures to do something about inflation become so intense that meaningful action to curb money growth can be taken—for awhile—leading to periods of relatively less inflation. In such periods the dollar and the stock market tend to rise, while defensive investments like gold retrench. Unless your objectives are truly (and solely) long-term, single-minded concentration on hard-money investments will cause you to miss out on excellent opportunities in the stock market and other such investments, as Lloyd Clucas reminds us in his article.

To cope with inflation—to dodge the falling dollar—you must learn to discount most official explanations and pronouncements, while observing what is really going on and figuring out why. Helping you to do that is REASON's job—not just in this Special Financial Issue, but 12 months a year.

Robert Poole, Jr.

Would you like to know what members of Congress say about their use of power over you?

HOW MUCH POWER DO THEY RIGHTFULLY HAVE? FROM WHAT SOURCES DOES IT COME? MORE PARTICULARLY, WHAT DO MEMBERS OF CONGRESS Believe ABOUT THE POWER THEY WIELD?



Get your copy now!

Bob LeFevre, famous libertarian and iconoclast, has challenged each of them with a series of arguments in which he charges dishonesty, illegality, and corruption on the part of every elected office holder in the nation's capitol. What is astounding are the responses he has received. More than forty senators and representatives were so intrigued (or infuriated) by what LeFevre said that they responded in a surge of letters that expose some astonishing attitudes and conclusions. Among them are: James L. Buckley, John G. Dow, Frank E. Evans, Gerald Ford, Barry L. Goldwater, Jr., Hubert H. Humphrey, Mike Gravel, Daniel K. Inouye, Bob Mathias, Wilbur D. Mills, Edmund S. Muskie, Jerome Waldie.

LeFevre's original letter and the ensuing correspondence have been brilliantly edited and annotated by R. S. Radford, who is an officer of a No. Calif. Taxpayers Association. An active member of American Mensa, Ltd., Radford publishes the **LibSIG!** newsletter for libertarian Mensans.

THE POWER OF CONGRESS (As Congress Sees It) is important reading for those who wish to look at the lawmakers through their own eyes. Few books have ever been so revealing of the reigning hierarchy. It's funny—yet, in a way, it's tragic and terrifying.

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letters

(Continued from p. 4.)

ventional munition" per family living along the Iron Curtain to fight off the 27,200 communist main battle tanks now facing them? (Also add twice that number of other armored fighting vehicles and self-propelled artillery under Red control in Europe.)

Unfortunately, Birmingham's ignorance of military affairs is not unique but rather endemic among libertarians. I for one am sick and tired of knee-jerk liberals, congenital idiots, and one-dimensional libertarian pseudo-intellectuals masquerading as authorities on matters they know nothing about and have no willingness to investigate.

If Birmingham does not fit into any of the above mentioned categories, then he should read more of Bob Poole's editorials and less CFR-*New York Times* crap.

Tony Haenni
State Chairman
LP of Missouri

Vital Question

I thought the interview with William Simon [February] was excellent. If he's sold all his stocks, it would be interesting, helpful, and perhaps vital guidance to know where a man of his experience and perception reinvested his money.

Earl Asbury
Colorado Springs, CO

The editor replies: We would like to know, too, Mr. Asbury!—**R.P.**

Republicans vs. Freedom

I was surprised to find William Simon such an enthusiast for the free market [February]. However, I find hard to swallow his statement declaring the Republican Party the espouser of "the philosophies of freedom and free enterprise," implying libertarians are on the same track. In that case let me off at the next stop.

The Republican Party, in an attempt to save itself, is claiming now that they've been black and individual freedom lovers all along. How cute! Surely Mr. Simon doesn't expect me to believe that the Democrats alone are responsible for the condition of our monetary unit. Individual freedom is not possible when the monetary system is being abused by the government. He talks of not ignoring history and then ignores 5000 years of history to tell me that inflation has nothing to do with gold. Five thousands years of history has shown that the State cannot be entrusted with the power to print money for the simple reason that to get elected you have to please the people. To please the people you have to print more money. Eventually the money is worthless. If it was not for the rapid expansion of technology in this century and the fact that we won World Wars I and II, and that now we have the rest of the world hooked on the dollar and they must support it, the dollar would have been worthless long ago.

Granted, Republicans have had a restraining effect on spending, and considering the inescapability of a tremendous depression when spending is brought under control, they cannot be faulted too much for not wanting to appear to be the cause of this. It would be sure suicide for their party. However, let's not forget their definition of "free enterprise." The biggies are "free" to operate with no competition and fix prices as long as the campaign contributions keep coming in. Sure they cut taxes, but they get it back in the form of campaign contributions, etc. No, I don't think the Republican Party is the answer.

Until the people realize that government is not the answer, there is not much hope for a libertarian president. You're like a cockroach selling Raid—nobody trusts you.

Mike Hall
Bonita Springs, FL

Government vs. Charity

I have one question to ask William Simon. In what, otherwise, was an outstanding interview, why does he say it is "obvious" that the *government* has a responsibility to help those people who cannot help themselves? It's not obvious to me at all. Why not use private enterprise like Jerry

comment of the month

The letter below, by subscriber Ralph Filicchia, appeared in the Feb. 3, 1978 issue of the *Boston Herald American*.

CHAINS AND SMOKING

I don't smoke—but I do resent the US government spending $30 million of our tax money telling others they shouldn't!

By what right does the government do this? In school we were taught that when our system of government was formed the federal government was to be "bound with the chains of a Constitution."

Well just where are these "chains"? If the government can spend $30 million to tell us we should not smoke, then it can spend $30 million to do just about anything it wants. So where are the "chains"?

Supposedly the government can only do what the Constitution gives it the right to do. In light of this I would like to ask:

Where does the Constitution give the government the right to tell others they should not smoke... how much employers have to pay their employees (minimum wage)... tell companies they have to hire so many minority workers... tell a company they can't fire an employee if he looks like some kind of weirdo who refuses to conform to company dress standards... dictate to local Little Leagues that girls can play... tell airlines how much they can charge—and all these other insane things in which they are involved.

It seems to me that the "chains" are no longer on the federal government, but on us! Our local and individual freedoms to do as we like with our lives and businesses are being more and more restricted, while the government is free to do whatever it likes. Somewhere along the line things got reversed.

Isn't it time that some group or well known spokesman came forth and challenged the constitutionality of these different government programs? Just think of all the money we as taxpayers could save if the Supreme Court decided that—according to the Constitution—the US government had no right to meddle in all these affairs.

Ralph Filicchia
Watertown, MA

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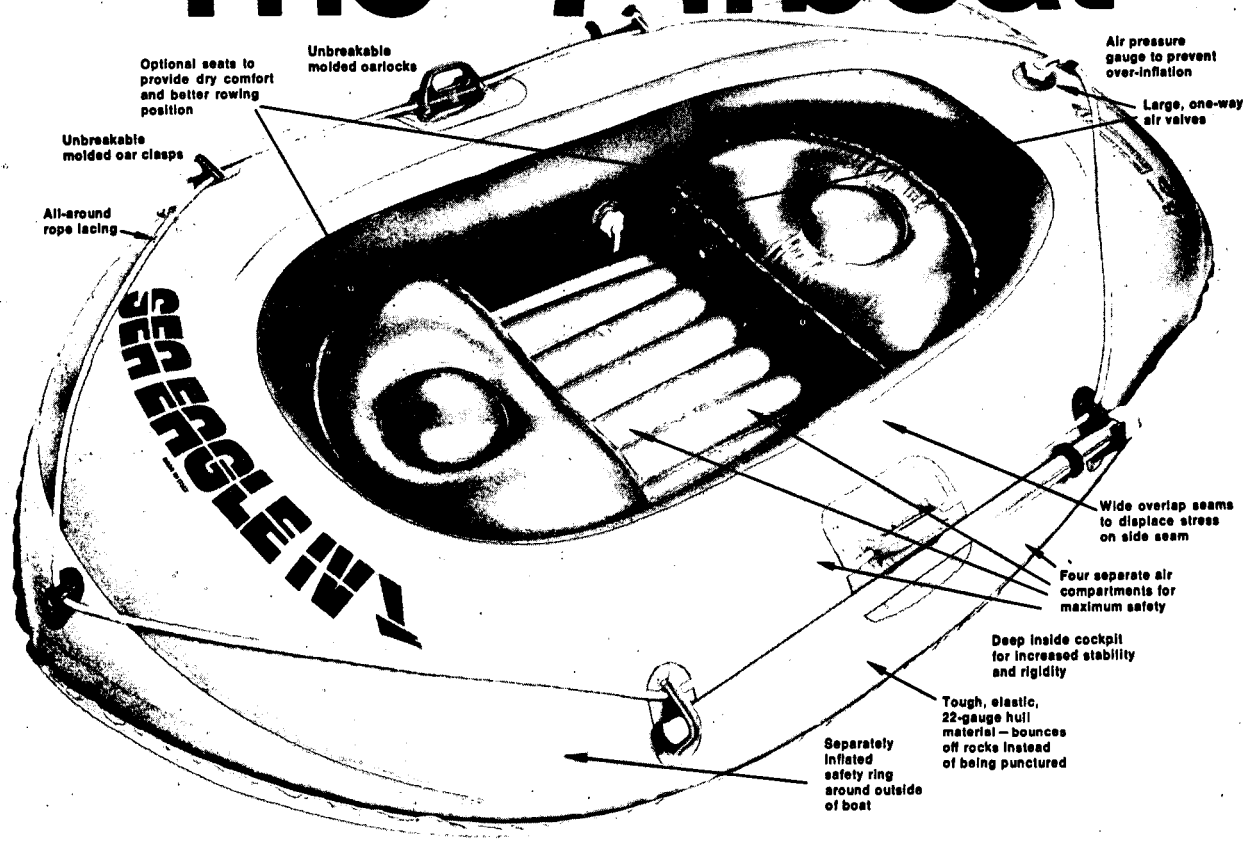
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Lewis, the Salvation Army, Goodwill, the Red Cross or even Sister Hazel's Mission to do the job?

George Elmore
Gainesville, FL

Milktoast?

I'm tiring of your interviews of milktoasts for free enterprise such as William Simon.

I don't recall him ever trying to dissuade the press—back during the grand Nixon/Ford days—from referring to him as the "Energy Czar." Where is his devotion to free enterprise when he concedes (in your interview) the basic welfare-state principle that government should "take care of those people who can't help themselves"? And I strongly suspect his position on the Libertarian Party. In comparing the Republicans and the Libertarians, how anyone could say "The Republicans, in my judgment, come closest to espousing the philosophies of freedom and free enterprise" is beyond me. At least he credits the LP for being "on the same track." Roger MacBride stated in a November, 1976 Honolulu interview that it was William Simon, of the Republican Administration, who was responsible for denying MacBride the usual presidential candidate secret service protection. Simon and his associates were playing with his life, he said, "and I resent it."

On the bright side, William Simon is an articulate and knowledgeable individual who is capable of excellent defenses on behalf of some aspects of free enterprise. Libertarians need all the help they can get and if possible should not alienate themselves from the arena of respectable discussion by resorting to ad hominem attacks and petty yellow journalism just to show the world how pure they are. It was a great interview if only for the exposure it gave us to the heavy world of pragmatic politics.

Mark Coleman
Honolulu, HI

Action Protest

Your editorial on the Bakke case [February], like the Bakke case itself, ignores another quota system that the government has imposed especially on universities, affirmative action *employment*. Obviously this is not simply a case of private businesses exercising their right to select employees on whatever basis they wish. Wouldn't any white, male, high-level executive who really believed in affirmative action step down or stand aside so that a woman or "minority group person" could have his job? This would be the ultimate affirmative action. As it is, affirmative action is only another absurdity that has been enlarged beyond argument by the government.

At first, I sent back those "anonymous" affirmative action data cards with my name and address and a note saying that the requested data were irrelevant. However, the machinery is sure to include a mechanism for dealing with that type of non-cooperation; so now I simply check the square that says, "I'm black!" and return the card. This only upsets the statistics a bit; but if enough opponents of quota systems did the same, perhaps Affirmative Action would choke on bogus black applicants. Even those not actually looking for a job might prefer this line of protest to writing letters to congressmen, etc.

Thomas R. Lawrence
Natick, MA

Mission Impossible

I was well pleased with Tibor Machan's editorial in the February issue. So many people condemn the Supreme Court Justices instead of recognizing the impossibility of their job.

Richard Foy
Redondo Beach, CA

Machan replies: I don't believe members of the Supreme Court have been innocent, but the statist provisions of the US Constitution do make it legally possible for statist legislation to receive court approval. Bakke vs. University of California is just one case where the court must cope with the chickens coming home to roost.—**T.R.M.**

Farms As Private Property

As one who has perhaps contributed more than his share of tub-thumping rhetoric on the subject of private property, I would like to offer the observation that the article "Imperial Valley Ripoff" by Craig Roberts [February] is an utter and complete stinker.

The object of Dr. Roberts' raving is Interior Secretary Andrus who, spurred on by a recent Federal Appeals Court ruling, is enforcing the provisions of the Reclamation Act of 1902. This Act put Uncle Sam in the dam-building business in the West in the name of "reclamation" of potentially valuable agricultural lands then too arid to be of much use.

Under the Reclamation Act the govern-

ment proposed to sell water to local water districts, but with certain conditions: "No right to the use of water for land in private ownership shall be sold for a tract exceeding 160 acres to any one landowner unless he be an actual bona fide resident on such land, or occupant thereof residing in the neighborhood of such land..." The act also forbade commutation of the residence requirement by cash buyout. The act was based on the Jeffersonian principle of the desirability of a multitude of independent family farms, as opposed to a small number of absentee-owned corporation farms.

Once the water started to flow (at subsidized rates), the Imperial Valley and other irrigated areas became very profitable. Accordingly, the big operators made every effort to circumvent the clear words of the statute, which remain on the books today. While I do not necessarily agree with Secretary Andrus' plan for complying with the law, I commend him for trying to enforce it after 70 years of tortured administrative interpretations designed to vitiate the will of Congress.

America's freedoms depend, in the last analysis, on the preservation of a widespread distribution of private property. That is what Congress sought to achieve in 1902 in making tax-subsidized water available for irrigation. While the Reclamation Act itself might not have been sound policy, the family farm requirement was a sound provision of the Act. It sought to extend private property ownership, not concentrate it in a few hands. If the "internationally known" Dr. Roberts had looked into this a little further, I don't see how he could have escaped the same conclusion.

John McClaughry
Concord, VT

Dr. Roberts replies: John McClaughry's argument is that "America's freedoms depend, in the last analysis, on the preservation of a widespread distribution of private property," and that this justifies and requires the State to confiscate and redistribute private property. Mr. McClaughry's argument does serve to make it clear that it is not just property rights in Imperial Valley that are threatened, but property rights everywhere the government decides that property holdings above some arbitrary number fixed by government are in "excess."

I would like to document just how poorly informed Mr. McClaughry is. In his view the federal court ruling and the Interior Secretary are trying to stop "70 years of tortured administrative interpretations designed to vitiate the will of Congress." The fact is that the Congress has not considered its will vitiated. Al-

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though not the most brilliant collection of people, the Congress has over the years contained enough intelligence to realize that the various revolutions in agricultural technology have rendered the 160 acre farm irrelevant. And the Congress, of course, realizes that its reasons for federal water projects have nothing to do with principles of "Jeffersonian democracy."

Mr. McClaughry is also totally mistaken in his belief that Imperial Valley consists of a few absentee landowners holding large concentrations of property and getting richer from tax-subsidized water. Imperial Valley consists primarily of owner occupied and owner managed family farms. Only about 10 percent of the land is in the hands of "agribusiness."

The Imperial Valley court case was not brought by a Congress trying to enforce its will, but by a group which wants to redistribute wealth from Imperial Valley farmers to its members. The latter are people who want to go play at being self-sufficient on small family farms, but who don't want to do so badly enough to pay the market price of the land. The Interior Secretary obliged them by issuing bureaucratic edicts requiring "excess acreage" to be sold at lottery at a price not to include the value of the irrigation—that is, the land is to be sold not at its market and mortgaged value as productive farm land but at the value of barren desert land. If the market price is, say, $2000 per acre and the fixed lottery price is, say, $400 per acre, there is a massive redistribution of wealth from the present owners to the prospective owners. It is this massive wealth redistribution that lets the prospective new owners overrule the market allocation of resources and employ, at no cost to themselves, valuable resources in highly inefficient ways. If people wish to employ valuable resources in the pursuit of romantic atavistic dreams, they are free to do so if they themselves are willing to bear the economic loss. But in Imperial Valley the loss is being borne by those who are being dispossessed and by those who hold their mortgages.

This is the way the situation stood when my article was written. In the meantime the Interior Secretary discovered that it was his imperialistic edicts that were vitiating the will of the Congress, and at the moment the process of dispossession has been slowed. The ultimate outcome is unclear. Unlike Mr. McClaughry, the statists in the Congress realize that the real concentrations of land holdings, as well as other property holdings, lie outside of Imperial Valley. Today the family farms of Imperial Valley. Tomorrow the world.

One last point. The restrictions were never considered by anyone to apply to Imperial Valley. The property owners there had private water rights which they surrrendered when they joined the federal water system.—**CR.**

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Bravo!

Just a short note to let you know how very much I have enjoyed the movie reviews by John Hospers. He writes with such clarity and sensitivity that I know after reading a review whether or not I want to see the movie. This is unusual for me, as I usually don't put much stock in others' opinions as to what I may or may not enjoy in the arts. His review of *Julia* [February] prompted me to write this note. I had seen the movie and his review of it brought back all the emotions I had felt while watching it. Thanks John Hospers, thanks REASON!

Maxine Brenner
Calabasas, CA

Cost-Benefit Inadequate

In his article "Deregulation Is a Moral Issue" [March] Tibor Machan is correct in that supporters of government regulation will not be dissuaded by cost-benefit studies. Libertarians must not rely solely on the efficiency argument in opposing government regulation. People must be made aware that government regulation violates our rights.

For if you argue against coercive government regulations by stating only that they are costly and inefficient, others can easily get the impression that you would approve of the coercive regulations if they were more efficient. Pressure groups and individuals, looking after their own self interest, will see no reason not to advocate those government programs which benefit them directly if the cost is the only argument against goverment programs, for the cost will fall on others. For example, the excessive cost of government subsidy will not dissuade those groups who are receiving the subsidy and those who feel it is their duty to provide the subsidy.

Bob Murphy
Pittsburgh, PA

Rights and Ownership

In his essay critical of Rothbardian self-ownership [March], George Mavrodes makes several errors which I would like to briefly comment on. First, moral ownership is simply a bundle of rights to use of a thing inhering in a person. If one has full

rights to use of a thing (one's body, a car, etc.), then one owns it. Mr. Mavrodes attempts to escape this assignment of ownership by claiming that one may have a right to use of a thing without any corresponding ownership. The example he brings up is the "right" of a pilot to use an orange roof as a landmark regardless of the wishes of the owner. If Mr. Mavrodes establishes this to be a right, then Rothbardian self-ownership is in error.

In fact, the pilot has no right to the use of the roof in the Rothbardian sense, for he has no right to constrain the owners from painting it any other color or destroying it. The right in this cases is the right to move one's eyes as one chooses. This right is a part of one's self-ownership. With respect to someone else's roof, one has no right in the absense of a contract transferring such a right, in which case one is a partial owner of the roof, at least with respect to certain of its attributes.

Mr. Mavrodes claims that a right to ownership entails the right to transfer this ownership, and therefore the right to transfer ownership of one's self to another party. This does not follow, however, as one cannot alienate one's will from oneself. The fact that one cannot divorce self from will has the same ontological basis as the fact that one cannot both have and not have an attribute at the same time and in the same respect. Hence, one may sign a "contract" which claims to obligate oneself to bodily or mental service (as distinct from the transfer of other goods) but it is, by the very nature of being, unenforceable and hence null and void.

Tom G. Palmer
Annapolis, MD

Value of Age

The Finnish President, just reelected, is 77 years old. Three cheers!

Our society's spurious and ill advised infatuation with feckless youth should have the rug pulled out from under it.

For centuries, civilizations and cultures, age has been venerated and respected. It still *is* amongst the so-called "uncivilized" peoples of our world—indigenous tribes that we believe to be so primitive that it is our duty to destroy their cultural heritage and superimpose our precarious and poisonous society upon it. But these peoples have the right basic concepts. They believe in family identity, loyalty, rules, obedience—and reverence for age and experience.

We, the pseudo-civilized, mock maturity. We educate people to consider themselves 'old' as soon as their brains are full

(*Continued on p. 70.*)

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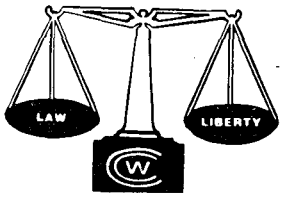

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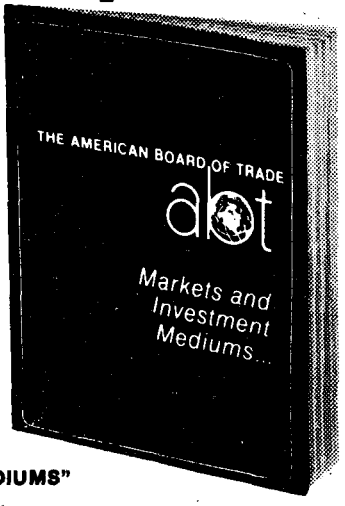

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☐ **On the 11th of March, 11 Palestinian guerrillas**, heavily armed with automatic rifles, grenades, and the like, entered northern Israel seeking to take hostages and force the release of other Palestinians from Israeli prisons. Before the day was out, they had killed 35 Israeli (and one American) civilians. They were universally denounced as terrorists and murderers. On the 15th of March, some 20,000 Israeli soldiers, heavily armed with automatic rifles, grenades, mortars, heavy artillery, naval and air support, and the like, entered southern Lebanon seeking to take territory and force the Palestinian guerrillas from their Lebanese strongholds. Before the week was out, they had killed over 1000 Lebanese and Palestinian civilians, and driven another 160,000 across the Litani River as refugees. (Israeli Prime Minister Begin called this the "purification" of southern Lebanon.) Virtually no one denounced them as terrorists and murderers. *Time* magazine, which called the PLO attack "savage" and a "massacre," the next week printed a photograph blandly captioned: "Residential section of Tyre under heavy bombardment by Israeli naval guns." (Said the *Christian Science Monitor*, "Israeli military sources said it had been decided not to try to take Tyre because such an operation could involve hand-to-hand fighting with entrenched Palestinians." Jimmy Carter had called the PLO raid "cowardly.") Columnist Jimmy Breslin observed that "apparently a dead woman in Lebanon is not worth as much as a dead woman in Israel."

But of course there's more to it than that. The Israeli Defense Forces aren't called terrorists because they work for a State. And as the libertarian Albert Jay Nock remarked: *"The State exercises the monopoly of crime. It forbids private murder, but itself organizes murder on the colossal scale. It outlaws theft, but itself lays unscrupulous hands on whatever it wants, whether the property of citizen or of alien."* Since libertarians don't (usually) draw spurious distinctions between private crime and State crime they should have no trouble recognizing the Israeli butchery as also "terrorism"—except, of course, for those sectarians who only oppose the initiation of force when it's done by the *goyim*.

☐ **'Quest, "Canada's Urban Magazine,"** has no subscribers. Instead it is "delivered at no charge to 700,000 homes" and lives off advertising. An obvious formula for innocuous, *Family Weekly*-style pap; and the December 1977 issue seems no exception, with gems like "You and Your Dreams," and "The Boom in Cross-Country Skiing"—and "Vile Bodies We Should Love," on Walter Block's *Defending the Undefendable*; that "sensationalistic," "absolutely mad," "menace to the libertarian movement." Not having read the libertarian press, *Quest* didn't know they were supposed to be "turned off" by Block's innocuous opus, and praised his "irrefutable logic and consistency." Perhaps Sharon Presley, Walter Grinder, Jim Davidson etc. think logic and consistency "turn off" the Great Unwashed. Maybe they're right but you can get a free copy of the article from Fleet Press, Box 2R, Brooklyn, NY 11235 and test it on yourself.

☐ **Everybody loves "sunset laws."** Supposedly, they limit government spending by requiring every board, commission, or program to expire after a fixed length of time, unless the legislature votes to extend it. Both Barry Goldwater and George McGovern endorse a federal Sunset law. Now any scheme blessed by two such arch-statists should be immediately suspect, and syndicated columnist Abe Mellinkoff confirms our worst fears. In Colorado, he observes, four of 13 programs reviewed were cancelled for a munificent saving of $11,000. The cost of the cancellation was just under $200,000. So perhaps it's just as well that Alabama kept 199 of the 200 agencies it "reviewed." Clearly, There Ain't No Such Thing As A Limited Government—if the government gets to "limit" itself.

☐ **Japanese steel products** undersell American steel because the Japanese "dump" steel at below cost, right? One Edward Greer reports (in the *Nation*, March 4) that according to the FTC the export price of Japanese steel is actually *higher* than the domestic price. The FTC also claimed that the value of Japanese government aid to the steel industry is only 43¢ a ton—small beer on a $360 a ton item. The real reason Japanese steel costs less, says the Council on Wage and Price Stability, is that Japanese labor costs are lower. Greer doesn't go so far as to blame the United Steelworkers for the industry's woes, but he is writing for the *Nation*, after all.

☐ **The Last Word on the Canal Treaties:** Garner Ted Armstrong of the Worldwide Church of God notes that "everybody has neglected" the Canal's "role in Bible prophecy." Americans are descended from the Ten Lost Tribes of Israel, you see, and the Canal is one of the "sea gates" of Israel that are our "birthright promise" from Abraham. If the treaties pass, Armstrong prophesies, "it will represent a significant milestone in the prophetic decline of this country, because it will mean that God is allowing us to lose our birthright heritage." . . . The *Washington Post* reveals that the Panamanian Minister of Planning is, "a former student of the University of Chicago conservative economist Milton Friedman." . . . Between 1903 and 1914, James Luitweiler told Congress, the US-Panamanian Land Commission paid $4.7 million for the privately owned land in the Canal Zone. (Lobbyists have spent $2.7 million over the treaties; $2.3 million to oppose them). He should know; he headed the Commission. A clerk for the US District Court in the Zone, one Doris McClellan, produced three boxes of deeds to support Luitweiler and complained: "I can't understand how people can say that we didn't own the land." Luitweiler said a "purchase" from Panamanians "was a matter of eminent domain. They had no choice."

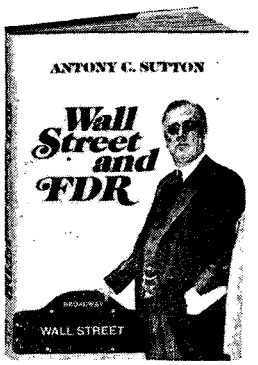
☐ **Texas faces a natural gas glut,** and the Texas Railroad Commission wants to order Texas producers to cut production to keep the price high. "Deregulation" advocate Jack Allen, president of the Independent Petroleum Association of America, is all for it: "to protect the small producer." As political theorist Willi Schlamm put it, "The trouble with socialism is socialism. The trouble with capitalism is capitalists."

Bill Birmingham

"To force a man to pay for the violation of his own liberty is indeed an addition of insult to injury. But that is exactly what the state is doing."

—Benjamin R. Tucker,
Instead of a Book, *1893*

The untold story of FDR and his Wall Street cronies



Franklin D. Roosevelt, the scourge of Wall Street, was an old hand at wheeling and dealing in finance. Though the New Deal almost destroyed free enterprise in America, it didn't hurt FDR's circle of old friends in a select few financial institutions. They and their corporate allies actually profited by the regulatory agencies and programs established by their old pal in the White House.

While millions were unemployed and hundreds of thousands of smaller businessmen suffered, corporate chiefs who played ball with FDR's Wall Street cronies found that their Depression blues would vanish after a call to Washington. FDR had installed former associates in the agencies regulating business and banking, and these men formed an axis with Roosevelt's erstwhile colleagues still on Wall Street.

Whereas those outside the charmed circle had problems. Even giants like Henry Ford eventually got the message.

The way FDR's New Deal really worked, rather than the way his apologists claimed it worked, is not surprising in light of FDR's previous career on Wall Street. During the 1920s FDR had learned how to mix power and politics to produce profit in the lucrative bond business. He engaged with mixed results in sometimes marginal or madcap ventures like creating a domestic airship line and trying to exploit Germany's inflation woes. Through it all, FDR learned that the surest way to business success is to get society to work for you.

In this major revisionist work on Franklin Roosevelt, Antony C. Sutton demonstrates that FDR was not against business—he just didn't like free competition. FDR and his Wall Street circle were corporate socialists, maintains Mr. Sutton. They believed in making society work—for themselves. Underneath the populist rhetoric, FDR was an elitist who influenced public policy to benefit special interests, the most special of whom was himself.

Socialists on Wall Street

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trends

Prison for Profit

"Prisons as now structured simply do not attract the kind of innovative professionals who can create new ways of doing things. For better or worse, talent gravitates in our society toward profit." So saying, Richard L. Mitchell, former chief program administrator of the New York Department of Correctonal Services, proposes "a startling, yet rather obvious alternative to the present penal system: the *private* prison, something akin to a profit-making corporation."

Under Mitchell's plan, private prisons would exist side by side with, and in competition with, state prisons. They would incarcerate prisoners on contract from the state government, receiving a base annual rate per inmate with upward and downward adjustments based on how well it protected inmates from violence, the quality of training and rehabilitation it provided, and its success in discouraging inmates from returning to crime upon release.

Mitchell expects that the profit motive would lead prison companies to use their own personnel more efficiently than state prisons, and to make innovative use of inmate labor. (The contract would prevent labor practices deemed abusive.) The likelihood of inmates learning useful, productive skills would be much greater than in present state institutions.

None of this should be surprising to serious students of the free market. What is noteworthy is that Mitchell has reached these conclusions from his own experience in the frustrating world of today's state prison systems. Consequently, there's reason to hope that his proposal will be taken seriously by legislators.

SOURCE:
- "A New Idea: Private Enterprise Prisons," Richard L. Mitchell, *Los Angeles Times*, Feb. 7, 1978.

Criminology Revisionism

Two new studies are shaking up the comfortable world of criminology, until recently the exclusive province of political liberalism. One gives new substance to the concept of the "criminal mind" and the idea that individual criminals—not society—should be held responsible for their behavior. The other recommends doing away with the insanity defense in criminal trials.

The late Samuel Yochelson and his colleague Stanton Samenow have produced a three-volume work called *The Criminal Personality*. The result of 14 years of intensive observation of 255 hard-core criminals at St. Elizabeth's Hospital in Washington, DC, the study documents in great detail the ways in which such persons differ from ordinary people. These hard-core felons, all of whom were classed as sociopaths or psychopaths, were found to be prone to 52 "thinking errors"—such as extreme present-orientation, emotional fragmentation, and being unable to think in abstractions or to empathize with others. Their entire lives had been devoted to anti-social, exploitative behavior. Such persons continually think in these terms; hence, the crimes they commit are only a fraction of those they contemplate. Most of them have quite violent thoughts—even if they have only been caught committing property crimes. Few of their crimes are actually done on impulse; most result from their ongoing, opportunistic thought processes.

The implications of Yochelson and Samenow's findings are far-reaching. To begin with, the old liberal idea of the criminal as a victim of society goes out the window. As James Q. Wilson wrote several years ago, we must acknowledge that "wicked people exist." But further, given the nature of the criminal personality, naive efforts at rehabilitation (e.g. by job counseling or group therapy) can be seen as largely wishful thinking. The authors spent many years developing an intensive, year-long Synanon-type therapy program, designed to break through the criminal's game-playing and destroy the criminal personality. But although they hold out great hope for it, only 30 of the 255 felons managed to complete it, and of these only nine are considered truly rehabilitated.

Although a few professional liberals have denounced the Yochelson/Samenow study, most people who work with criminals agree with its findings, according to a survey conducted by *Science* magazine.

More controversial is a recently released study of the insanity defense. Conducted by a lawyer, a sociologist, and two psychiatrists, for the New York Department of Mental Hygiene (DOMH), the report recommends that the defense of not guilty by reason of insanity be abolished. This recommendation is based on a detailed study of how the defense is actually used in New York State. The authors document a fourfold increase in acquittals on this basis in 1971-76 compared with 1965-71, and find that in more than half of the cases, the charge was murder. More significantly, they find that the insanity defense has been used by four specific subgroups to escape punishment: mothers who have killed a child, police officers, persons with no prior record, and persons of high social position.

Most damning of all, the authors present evidence that psychiatric assessment of insanity (at the trial) and of continued dangerousness (the criterion for release) is nothing more than "guesswork dressed up in the false cloth of reassuring pseudoscience." They point out that in most trials where insanity is an issue, both prosecution and defense utilize psychiatrists as expert witnesses—giving opposite testimony. "Who should be believed? The psychiatrist who uses the most scientific language? Who uses the least? Who looks and sounds most like a psychiatrist?"

The authors recommend that the insanity defense be replaced by a rule of diminished capacity, under which evidence of insanity could affect the seriousness of the charge that could be brought but *not* the question of innocence or guilt. Anyone found guilty—"insane" or not—would have to serve a prison sentence.

The DOMH study is long overdue. In recommending abolition of the insanity defense, the authors join the National District Attorneys Association in calling for a return to individual responsibility for criminal actions—a position also implied in the Yochelson/Samenow findings.

SOURCES:
- "The Criminal Mind: A New Look at an Ancient Puzzle," Constance Holden, *Science*, Feb. 3, 1978, p. 511.
- "The Criminal Insanity Defense is Placed on Trial in New York," R. Jeffrey Smith, *Science*, Mar. 10, 1978, p. 1048.

Fighting Apartheid

In recent years various groups have demanded that US corporations withdraw all their operations from South Africa because of the racially discriminatory policies of that country's government. This position ignores the fact that such a withdrawal would most likely harm South African blacks at least as much as the government, by destroying many thousands of jobs. Furthermore, many US corporations have been among the leaders in promoting equal treatment for blacks in industry.

A far more sensible policy is to differentiate between the South African *government*—which enforces the policies known as apartheid (separateness)—and the South African *economy*, and to cease assisting the former while continuing to be a positive force in the latter. Just such a

policy has now been announced by a number of US banks. In March Citicorp (parent of First National City Bank) announced that it will no longer make loans to the South African government or to any companies owned or operated by it. Instead, "Citicorp is limiting its credit selectively to constructive private sector activities that create jobs and benefit all South Africans." Chase Manhattan and Morgan Guarantee followed up with similar statements of policy. Citicorp is one of 60 US firms pledged to a six-point program of equal opportunity and support for human rights in all its South African operations.

Besides promoting peaceful change, these policies make sound long-range sense. When the white minority regime is eventually replaced, those companies which have refused to back apartheid over the years stand a far greater chance of being allowed to continue operations in South Africa.

SOURCES:

- "Citicorp, Citing Apartheid, Halts Loans to South African Government," *Wall Street Journal*, Mar. 13, 1978.
- "World Roundup—South Africa," *Business Week*, Mar. 27, 1978, p. 61.

Capitalist Inroads

All around the world, socialist governments are taking steps to reintroduce elements of capitalism to their economies, spurred on by the desire for greater prosperity. If the new policies clash with the official ideology, those in charge simply overlook the inconsistencies.

Sri Lanka's new government is typical of Third World efforts in this direction. Within months of taking office it had successfully gutted that country's most sacred of political sacred cows: its free rice distribution program. Over only minimal protests, it cut the number of people eligible for the one pound per person, per week handout from 14 million (virtually the entire population) to only 7 million. Also planned are cuts in subsidies for milk, flour, fertilizer, transportation, health care, and education. Such subsidies last year absorbed 15 percent of total government expenditures. "Ultimately, only the unemployed and destitute will get a subsidy," states central bank advisor Neville Karunatilake. Besides cutting subsidies, the government is making a major effort to attract investment. "We'll give foreign investors more opportunities than they've been given in any comparable situation," says Sri Lanka's trade minister. "You name it—tax concessions, rebate, export assistance, no red tape."

Policies such as these are also being tried in the communist countries of Eastern Europe. The government of Hungary is now exempting private artisans from all taxes in their first two years of business, in order to encourage more people to become self-employed entrepreneurs. In small villages, the tax holiday runs for three years. And the tax rates on artisans and craftsmen have been cut 17 percent.

The Bulgarian government has introduced a program of pay incentives throughout the country, after finding that incentive pay doubled productivity in a Sofia department store. The government has also eased restrictions on the size of private farming plots, which make up 12 percent of all Bulgarian farm land. It will give land to those who wish to begin farming and will exempt from taxes all produce sold to State cooperatives.

The Czech government is also embarking on a capitalist experiment. Five major industries, encompassing 487,000 employees, have been designated the "reform sector" of the economy. Within this sector, wage policy will stress bonuses and production premiums, and enterprises will be allowed to make unsupervised decisions on investments of up to $360,000. If this retreat from central planning works, it may be applied to the entire economy in the 1980-85 five-year

Now Available:

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Adam Smith's first book will startle those who think capitalists are purely selfish, for Smith fully understood that liberty must be based in a moral order. Dr. E. G. West, who writes the introduction, asserts that "if *The Wealth of Nations* had never been written, this previous work would have earned for him a prominent place in intellectual history." *The Theory of Moral Sentiments* was greeted with rapturous praise in its own day. Smith's friend David Hume wrote to him from London soon after the publication, telling him that "the public seem disposed to applaud it extremely." The "mob of literati," Hume added, "are beginning to be very loud in its praise." Hardcover $9.95, Softcover $2.95.

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plan.

Creeping capitalism is even showing up in China and Russia. The reformist government of Hua Kuo-feng has just abolished the system of managing Chinese factories via "revolutionary committees" made up of workers. To correct 10 years of industrial chaos and stagnation, professional managers will once again be hired to run the factories. In the Soviet Union a major debate is taking place on the subject of central planning and labor problems. A series of articles in *Pravda* last fall by economist Dimitri Valovi strongly criticized central planning—"'according to plan' has become synonomous with waste and inefficiency," he wrote. Recent Central Committee debates have repeated such criticisms, but without resolving the central Soviet dilemma: how can the economy be decentralized (increasing efficiency) without losing political control? Sooner or later the Soviet leadership will have to bite the bullet on that one—as its fellow socialists around the world are already doing.

SOURCES:

- "Sri Lanka Revamps Its Economy to Ease Island's Stagnation," Sharon Rosenhause, *Los Angeles Times*, Mar. 26, 1978.
- "New Communist Order—Capitalism," *World Money Analyst*, Mar. 11, 1978.
- "Bulgaria Finds New Job Incentive—Pay," Murray Seeger, *Los Angeles Times*, Dec. 25, 1977.
- "World Roundup: Czechoslovakia," *Business Week*, Mar. 20, 1978, p. 56.
- "China Apes US Business," Linda Mathews, *Los Angeles Times*, Mar. 7, 1978, p. 78.
- "The Soviets' Shadowy Economic Debate," *Business Week*, Mar. 20, 1978, p. 58.

Privatizing Government Operations

Recent studies of two major high-technology federal programs have reached the same conclusion: turn them over to the private sector. The programs involved are uranium enrichment and the Space Shuttle.

Prof. Thomas Gale Moore of the Hoover Institution examined the uranium enrichment process—currently a government monopoly. In order to be usable in nuclear power reactors, natural uranium must be concentrated about fivefold. The most common process for doing this is known as gaseous diffusion. The federal government owns and operates three gaseous diffusion plants. With additions currently under way, these plants will provide a supply of enriched uranium adequate for the number of power plants expected to be operating through the late 1980's. But much additional capacity will be needed thereafter. The subject of Moore's study was how best to ensure this needed capacity.

Moore identified four basic policy options: (1) continuing the government monopoly, (2) converting present operations to a profit-making government corporation (like Conrail or the Postal Service), (3) continued government operation of the existing plants and construction of additional ones by private enterprise, and (4) selling off the whole business to private enterprise. Moore finds that options (1) and (2) would be unlikely to meet projected demands, since (as government operations) they would be subject to strong political pressures from the anti-nuclear lobby. The third option is also troublesome, because of both political opposition and worries by the companies about competing with the subsidized, below-cost government plants.

But selling off the existing plants to private industry avoids all of these problems. Besides yielding about $2 billion to the taxpayers, this sale would "ensure that the [enrichment] business operated efficiently without subsidy on a strictly commercial basis," writes Moore. "For the first time fossil fuels would compete with atomic energy on an equal footing." Both those who contend that nuclear power is uneconomical and those who see it as ultimately the most cost-effective would have a chance to see the marketplace decide the question—instead of politicians and bureaucrats.

Similar considerations affect NASA's Space Shuttle. Just by contracting Shuttle launch operations to a private contractor, NASA could cut costs by 30 percent, concluded Booz-Allen Applied Research. This is because NASA requires so many employees to keep watch over numerous component contractors. During initial Shuttle operations at the Kennedy Space Center (at the rate of 20 launches per year), costs could be cut by $2.5 million per launch. NASA management is "strongly considering" the consulting firm's recommendation, with 1981-82 as a target date for virtually complete contractor management.

An even stronger recommendation for Shuttle privatization has come from another consulting firm, Science Applications, Inc. After a year-long study of Shuttle operations and space industrialization, SAI concluded that NASA's best course would be to turn over the entire Shuttle operation to private industry, to be paid for by its customers. "Let TWA or Pan Am operate the Shuttle like a common carrier, with appropriate licensing fees to NASA," recommends consultant Peter Vajk, who says that NASA's "gold-plated" approach is "no way to run an airline" and would be "disastrous" for future space industrialization.

SOURCES:

- *Uranium Enrichment and Public Policy*, Thomas Gale Moore, American Enterprise Institute, 1978 ($2.75).
- "Shuttle Operations Shift Studied," *Aviation Week*, Mar. 6, 1978, p. 12.
- *Space Industrialization Study*, Science Applications, Inc., April 1978.

What Population Bomb?

The rate of world population growth peaked in 1970 and has since declined substantially, especially in many of the poorer countries. By the year 2000 world population will be about a billion less than the UN and other agencies had predicted as recently as last year. And government-sponsored family planning programs have had little to do with these changes.

This surprising news was made public by a panel of demographers at the recent annual meeting of the American Association for the Advancement of Science. Between 1970 and 1977 birthrates in the developing countries (excluding China) dropped from 42 to 36 births per thousand. A country-by-country breakdown shows that 19 of these countries had declines of 20 percent or more—including South Korea, Taiwan, Thailand, Colombia, China, and Cuba.

What factors contributed most to the declines? As economic theory would predict, the most important factor was social and economic conditions leading people to decide that their lives would be better off with fewer children. In the case of China and Cuba, this took the form of exhortation and coercion to change the social structure: delaying marriage, moving women into the work force. But in the noncommunist developing countries, it was booming economic growth that changed people's expectations and desires. Rising real income levels and the emergence of women as wage earners and household decision-makers have made large families appear much less desirable in these countries.

What about massive government family planning programs? W. Parker Mauldin of the Population Council thinks they have "speeded up the decline" set in motion by economic advance, but others disagree. At the AAAS meeting William Peterson of Ohio State University said there is little firm evidence to support that position. He was seconded by Maris Vinovkis, University of Michigan historian, who reminded the panelists that the major decline in US birthrate occurred during the booming 19th century—long before the pill and the IUD. This point is further supported by the fact that countries with family planning programs but without economic growth—Bangladesh, Pakistan, much of Africa—have shown no declines in birthrates.

Once again, it appears that the best

course for governments to take is to pull back from policies that discourage or restrict the growth of the market—and let nature take its course. That way, the population bomb will prove to be a dud.

SOURCE:
• "Surprise Slowing of World Population Rise Noted," Robert Gilette, *Los Angeles Times*, Feb. 15, 1978.

Milestones

• *Another Usury Law Repealed.* Tennessee voters repealed the state's archaic 10 percent ceiling on interest rates. As a result, the availability of funds for consumer loans has soared, ending a severe credit crunch. Small loan companies had virtually stopped making loans after an August 1977 court ruling enforcing the 10 percent usury ceiling. (Finance company interest rates had been averaging 19 percent prior to enforcement of the law.) Tennessee voters decided, wisely, that they would rather have loan money at 19 percent than no money at 10 percent. (Source: *Business Week*, Mar. 20, 1978, p. 40.)

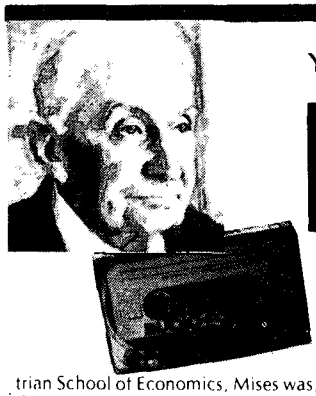
• *Another Life Patent.* For the second time in less than a year, the Court of Customs and Patent Appeals has ruled that a newly created life form is patentable. The new ruling upheld the patentability of a bacterium that consumes oil, developed by a General Electric microbiologist. As in its earlier Upjohn Company ruling, the court held that the substance, though alive, is a "manufacture or composition of matter" within the meaning of the basic patent law of 1790. (Source: *Science*, Mar. 17, 1978, p. 1184.)

• *Communications Competition.* The head of the House Commerce Committee Subcommittee on Communications, which is rewriting the entire Communications Act of 1934, has endorsed substantial new competition in telecommunications. Rep. Lionel Van Deerlin believes that the telephone companies should be free to compete with television and telegraph firms for a share of the coming markets in broadband video and voice/data terminals. He also favors full competition between the phone companies and data transmission firms for intercity telecommunications traffic. Congress should not leave such decisions to the Federal Communications Commission, he said, because "there is every indication that the telephone industry has outgrown both regulation and litigation." (Source: *Electronics*, Mar. 2, 1978, p. 55.)

• *Yen for a Choice?* The nation's largest bank, the Bank of America, has asked the Federal Reserve Board for permission to offer accounts denominated in foreign currencies. Such accounts became legal under the Helms Act that legalized gold clause contracts. Accounts in Japanese yen, Swiss francs, or Deutschemarks would permit Americans to protect their assets from inflation without having to utilize an overseas bank. (Source: *IMI Bulletin*, Feb. 24, 1978.)

• *Handgun Possession.* New York State's highest court has upheld an appeals court ruling that residents of New York City are entitled to purchase and possess as many handguns as they wish under a single "on-premises" license. Moreover, the city may not demand proof of "need" for possession of the guns, but must follow the letter of the criteria specified in the licensing law. The case was brought by the Federation of New York Rifle and Pistol Clubs. Unfortunately, the City has now asked the state legislature to change the law to give police officials power to demand "proper cause and unique need" for handgun licenses. (Source: *NRA Reports from Washington*, Mar. 9, 1978.)

This column reports trends in the advancement of liberty and economic freedom. Readers are invited to submit material of potential interest to Trends Editor, REASON, Box 40105, Santa Barbara, CA 93103.



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ANNOUNCING THREE IMPORTANT TALKS—NEW ON CASSETTE TAPE.

On October 10, 1973, Ludwig von Mises died at the age of 92.

Acknowledged leader of the Austrian School of Economics, Mises was, in the words of one scholar, "perhaps the most articulate, consistent and courageous defender of liberty and the free market that modern times have known." Among Mises' many path-breaking works are *The Theory of Money and Credit, Planning for Freedom, Omnipotent Government, The Anti-Capitalist Mentality,* and the monumental *Human Action.*

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The Promise and Perils of Gold Clauses

Protect yourself from dollar depreciation by using this new freedom . . . prudently.

by Steve Beckner

NOW THAT AMERICANS have regained recognition of their right to make contracts specifying payments in terms of gold—and incidentally, in terms of foreign currencies—how can they exercise it? Those who expect a sudden flood of sure-fire, can't-lose gold-clause insurance policies, securities, and the like are apt to be disappointed. Those things may come in time, but it seems likely such institutional offerings will await development of gold-clause experience with smaller, private contracts.

While there are kinks to be worked out and legal refinements to be made, individuals *can* begin to take advantage of the inflation protection that gold-clause freedom can provide—so long as they act prudently. So, let's examine some of the potential pitfalls and see how to skirt them successfully.

BACK TO GOLD?

The gold-clause legislation, which became effective the minute President Carter signed it on October 28, 1977, was greeted with a mixture of hope, doubt, fear—and some misinformation. Major publications like the *New York Times* and the *Washington Post* heralded the law as an effective reestablishment of the gold standard. Sen. Barry Goldwater, addressing the New Orleans "Gold, Monetary, and Economic Conference" in November, commended it as a "means for establishing a private gold standard." The US Treasury, on the other hand, in giving its endorsement, obviously felt it was merely contributing further to the "demonetization" of gold (and reducing it to the status of "just any commodity").

At least one gold-clause contract, involving a ship lease, went into effect immediately. According to the *New York Times*, it called for dollar payments to increase (or decrease) by the same percentage as the London gold price when the lease comes up for renewal in three years. (Other possible formulas will be reviewed below). A condominium owner was reportedly tying payments on his units to

the gold price. Utility companies were openly talking about issuing gold-backed bonds in order to get lower interest rates. On the international scene, where gold-clause contracts have never really been illegal, there was speculation that the Arabs might now index oil prices to the gold market. And there were a number of actual inquiries about the law from various Japanese companies.

Meanwhile, there were others who raised legal questions about the tax treatment of gold-clause contracts and about various government regulations that could affect them adversely. New York Law School Dean Donald Shapiro discoursed at length in New Orleans on the proper writing of these novel contracts. His and others' recommendations will be examined later.

Even the bill's sponsor, Sen. Jesse Helms, had his concerns, vowing to the New Orleans gold bugs to "take every step I possibly can to prevent regulatory repeal of this legislation." After the conference he sent letters to then Federal Reserve Chairman Arthur Burns, the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Securities and Exchange Commission, and others to determine whether they planned any regulations governing such contracts.

Thus far, only the SEC has responded to Senator Helms, saying it "plans no regulations affecting gold clause instruments" but has "adopted a wait-and-see policy," according to Helms Legislative Assistant Howard Segermark. "If someone contacts them with a proposal to issue a gold clause security [the SEC] will review it and see if it conforms with basic standards," said Segermark.

While investors await the issuance of *new* gold-clause securities, some brokers have rushed to hawk gold-clause bonds of *pre-1933* vintage as prime speculations. One such broker, Robert Ellison of Bache Inc., in Seattle, was cited in the November 30 issue of *Inflation Survival Letter.* In a mailing to investors, Ellison states, "the new law *is neutral* regarding the enforceability of these obligations" and goes on to call these old railroad and utility bonds—issued prior to the gold-ownership prohibition—"an ideal speculation" (emphasis added).

ENSURING PAYMENT

Unfortunately for would-be purchasers, however, the law specifically states that gold-clause enforceability applies only "to obligations issued on or after the date of enactment of this section"—not exactly "neutral" phrasing. In fairness to Ellison, he conceded in a recent interview that he is aware of this provision but said he is "very hopeful" that ongoing litigation to require gold payment on these bonds will be successful on constitutional grounds. "I'm certain it's going to be appealed all the way to the Supreme Court," he stated, adding, "There is that outside chance that the Supreme Court will see the light."

And anyway, Ellison asserted, even if suits seeking gold payment are overruled, the purchasers of these bonds will not have lost, because they bear "no significant premium when compared to other bonds of similar rating and maturity." If one is really determined to buy antique corporate bonds, which may or may not be a good investment, Ellison's point that it can't hurt to buy one with a contested gold clause seems ostensibly sound. But realistically, the chances of these bonds ever paying off in windfall gold profits are extremely remote. Asked if there was a chance the old obligations would be enforced, Segermark asserted, "Not at all."

Ellison did make one good point, however, in which he is not alone. That is that, so long as the abrogation of pre-1933 contracts goes unvindicated, many people will be reluctant to enter into new ones for fear the precedent will be repeated. It might be observed that the circumstances were different in the 1930's, when the Supreme Court narrowly killed gold clauses. (The United States was still on the gold standard, and the government had a more plausible reason for intervening to "regulate the value" of money.) But doubts will remain. In the event of hyperinflation and a skyrocketing gold price, who's to say the government wouldn't once again side with debtors and suspend their obligations to pay in gold or gold-valued dollars? As First National Bank of Chicago's Eugene A. Birnbaum put it in a letter to Senator Helms, "Questions would probably arise regarding the credibility of its enforcement in the event of a similar circumstance occurring in the future."

Those who expect a sudden flood of sure-fire, can't-lose, gold-clause contracts are apt to be disappointed.

A related question—however the courts rule—concerns the *ability* of a debtor to pay if gold goes through the roof. A gold clause won't do a lender much good if the borrower simply declares bankruptcy. This issue is dealt with by Howard Ruff in the December 1, 1977, *Ruff Times.* Ruff urges that a loan contract require the borrower to hedge his obligation in the futures market, so that if gold rises to unexpected levels, the profits on his futures contract will allow him to pay it. Of course, this assumes the prospective borrower is willing to enter into such an unorthodox loan contract. But if he's unwilling, he might better be avoided.

Ruff is adamant as he explains how the hedge would work: "The contract must require that he buy gold futures contracts, at the commencement of the agreement, equal to at least the number of ounces of gold stated in your loan agreement—in this agreement one 100 ounce contract, and he must maintain that futures position for the length of the loan agreement. If the price of gold rises, his contractual obligation to you increases, but he has a corresponding profit from his 'hedge' position in the futures market, so he breaks even. If the price of gold goes below $160 an ounce, he immediately sells out his position (using a stop loss order). He's not speculating, because his profits are equaled by his obligation to you. By insisting on this, you have protected his ability to repay you." (Ruff suggests the contract specify that the lender get monthly statements from the borrower's broker to insure that he is not speculating.)

Ruff notes that the hedge is no substitute for good collateral and ability to pay. Naturally, there will be commissions for the hedging borrower to pay, and it may be necessary for the lender to take these into consideration in fixing the interest rate.

Ruff offers to solve another problem: how borrowers and lenders interested in using gold clauses can get together. He offered to serve as an intermediary between those of his subscribers who are willing to enter into gold-clause transactions.

AIR-TIGHT CONTRACTS

What are the other ingredients of a well-drafted gold-clause contract? First of all, as Shapiro and other legal minds have recommended, the "points of reference" should be clearly stated. In other words, no matter which of the possible indexation formulas are used, you should specify the starting and ending points that will determine the amount of payment. Thus, if payment is to reflect a percentage change in the market price of gold from the time the contract is made to the time payment falls due, the contract should state the time and date of a *specific* gold market.

Shapiro recommended that the starting date be placed at least a week prior to the actual contract-signing date. So, if you were signing a lease or loan agreement, for instance, on July 9, 1978, the contract might take as its "reference point" the

London afternoon gold fixing on June 30, and so specify in the contract. Likewise, future payment should be made contingent on the market price in a specified gold market at a specified date and time one or two or three years hence — whatever the term of the contract happens to be. An alternative method, if you're worried about unfavorable market fluctuations, is to base payment on an average price from the month preceding the payment date.

Further, the *type* of payment should also be specified—whether it be bullion or coins or dollars measured by them. If bullion is used, specify the fineness. Shapiro counseled against using numismatic coins because of the difficulty of separating intrinsic value and rarity value. He suggested specifying a *certain type* of bullion coin (for example, Krugerrands, Austrian 100-koronas, Mexican 50-pesos).

Another caveat is to be aware of the usury laws in your state and in the state of the other contracting party. Usury laws, which impose an interest rate ceiling, generally do not protect corporations, but if you are dealing with a private individual, as in a personal loan, you must take proper precautions. In their August 1974 article in the Americal Bar Association *Journal*, Rene A. Wormser and Donald L. Kemmerer suggest a corporation could even be "created for the purpose," and a "personal endorsement of the loan by an individual concerned could be demanded to guarantee payment." But if that is not possible or worthwhile, the problem can still be obviated in most cases by simply leaving interest payments out of the gold-clause arrangement.

If only the principal, and not the interest, were specified payable in gold or in dollars measured by gold, "I don't think that would be usurious," Shapiro stated. Wormser and Kemmerer elaborate further in their 1974 tract: If it were one of long-term capital gain, any accretion in dollar value should be treated merely as an addition to capital gain. If there is an interest *factor, however, then the possibility* of a defense of usury may be present. If a legal interest rate were always applied to the value of *the initial obligation,* usury could not result. If, however, the interest rate were to be applied to a figure resulting from an upward adjustment through a gold clause, the debtor might claim that the result was usurious." (emphasis added)

Even if the gold clause were applied to the interest as well as to the principal, Wormser and Kemmerer held that the contract "ought" to be upheld. The key question, they say, is one of "usurious intent." And since "the contract does not assure a usurious interest rate, inasmuch as the contract may operate, if the price of gold declined, to produce less than the initially stipulated interest rate," the lawyer-economist team contended no "usurious intent" could be inferred—except in cases where "the effective rate of interest could not be less but might be more than the initially stipulated rate." They went on to suggest that "declaratory judgments" on the issue could be sought from state courts. To be on the safe side, Shapiro's advice that interest not be made adjustable to the gold price seems like the best bet.

TAX PITFALLS

In choosing the type of contract one wishes to enter into, a major consideration is tax treatment. The question of whether dollar gains resulting from gold clauses are to be taxed at ordinary income rates or at captial gains rates has not yet been decided. Different observers have varying views on what the most likely treatment will be.

By all rights, gains should not be taxed at all, since the purported purpose of the gold clause is not to make *actual* gains but to hold constant the value of one's capital invested in the contract. But the IRS is no more likely to adhere to this principle in the case of gold clauses than it does in the case of consumer price index or any other type of escalator clauses—*unless* one specifies payment *in kind*, that is, in actual gold (or foreign currency), not in gold-indexed dollars. If one lends gold, assuming one can find an interested borrower, and receives gold in repayment, Shapiro stated, "I think you can get away without any gain." The only tax resulting from such a gold-in—gold-out (or Swiss franc-in—Swiss franc-out) contract, certainly, would be on any interest charged on the value of the gold loan. (It does seem likely, however, that capital gains would be charged in the event that the lender sold the gold he received in repayment.)

In the event of hyperinflation, who's to say the government wouldn't once again suspend debtors' obligations to pay in gold?

This type of deal, therefore, is attractive from a tax standpoint but is probably unrealistic for the great majority of potential gold-clause contracts, at least at the present time. For until gold becomes more widely recognized and accepted as a monetary medium in this country, it will be difficult enough to find a party willing to enter any kind of gold-clause agreement—unless one is in a strong enough bargaining position to demand it—much less one specifying actual bullion or coin transactions.

It then becomes a question of getting the lowest possible tax rate—capital gains, assuming that Congress does not eliminate the present favorable treatment altogether, as threatened. "If you phrase your contract properly you should get capital gains," Shapiro maintained. He wasn't terribly specific on the point, but until the IRS rules otherwise, there is no reason why a taxpayer should report anything but capital gains on such a transaction. Wormser and Kemmerer recommend it is "advisable to attempt to secure rulings from the Internal Revenue Service." The writers' own opinion was that "it would seem worthwhile to use a gold clause, despite the tax risk. If an alleged, although false, 'profit' were taxed as a long-term capital gain, a substantial net protection against inflation would still remain. If the false 'profit' were taxed as ordinary income, there would even then be a small net benefit from the use of a gold clause."

Interest would certainly be taxed at ordinary rates, say Wormser and Kemmerer, who add that the IRS might even contend that "any accretion in dollar value would constitute the equivalent of ordinary interest and be taxable as such." That type of argument "should be rejected by the courts," they write. But the higher tax rate *could* still be imposed, they continue: "The nature of the tax would depend on the nature of the underlying transaction. If it were one normally taxed as a long-term capital gain, any dollar accretion should be taxed, if at all, as an additional long-term capital gain. On the other hand, if the transaction were one normally taxed as a short-term capital gain or as an ordinary income transaction, the accretion could be taxed, if at all, as ordinary income."

A less sanguine view on the tax issue was taken by a New York law firm that sent a memorandum on the subject to Senator Helms. Looking at the question in the light of both a "currency revaluation" and as a "commodities contract," this particular legal opinion concluded on the basis of case law: "The likely result under the present Internal Revenue Code would be to look upon gains . . . as ordinary [rather than capital] gains, taxable at the rate that the individual is then presently at." Cases cited were *Bates* v. *United States*, 103 F. 2d 407 (7th Cir. 1939) cert. denied, 309 U.S. 666 (1940); and *Corn Products Refining Co.* v. *Commissioner of Internal Revenue*, 350 U.S. 461 (1955).

NEGOTIABILITY

There is yet another ticklish area of which would-be gold-clause users should be aware. The Uniform Commercial Code maintains a restrictive definition of "negotiable instruments": writings signed by the maker or drawer containing an unconditional promise or order to pay *a sum certain* of money to the bearer on demand or to order. The key words are "a sum certain." Obviously, a gold-indexed (or currency-indexed) payment cannot be a "certain" amount, although a fixed amount of actual gold could. For that reason, the law firm quoted above also expressed the opinion that "the use of a gold clause in an otherwise negotiable instrument... [requiring payment] in money based on gold equivalent... would be rendered non-negotiable under the Uniform Commercial Code."

This is a pretty dim view, but it is not insurmountable. After all, gold clauses were successfully used for years before 1933, and similar *uncertain* indexation or escalator clauses are successfully used today in everything from mortgage loans to pension plans to employment contracts, without apparent infringement of the code.

Gerald T. Dunne, a professor of commercial law at St. Louis University, who has given some thought to this seeming dilemma, did not dismiss the problem in a recent interview, but he stated, "I think it's okay. I think the difficulty is far more imagined than real. Because, as you say, if this were fatal, every escalator clause would be likewise fatal." This belief is seconded in Robert S. Getman's article on gold clauses in the Winter 1976 *Brooklyn Law Review*, where he writes, "If the gold legislation were intended to make gold a commodity 'like everything else,' enforcement of escalator clauses based upon the value of gold should encounter no greater legal obstacles than would enforcement of other commodity indexing devices."

Of course, not all gold-clause contracts would fall under the definition of "negotiable instruments." As Dunne noted, "if it's not a bill of exchange or a note, then the problem doesn't even exist." Still, there may be cases where, ordinarily, a negotiable instrument might be desirable, and a gold clause could then present legal difficulties. In view of the code, Wormser and Kemmerer advise, "Either a non-negotiable note should be used, or reliance should be placed wholly on the contract of loan or sale itself."

The best advice of all is Dunne's injunction that "you should consult counsel and let him guide you. The person shouldn't be his own draftsman." That advice could just as easily apply to all of the foregoing areas. As Segermark said after passage of the law, gold-clause contracts need to be "written very gingerly," and the best way to insure that is to seek competent legal help. You may even be pleasantly surprised to find that the opportunities are not nearly so limited as some of the foregoing discussion might make it appear.

GOLD-CLAUSE FORMULAS

For those who are willing to try gold clauses, what are the mechanics? Keeping in mind the rules and caveats discussed above, which also apply generally to "multicurrency" contracts, there are several different types of clauses. Let us assume for purpose of discussion that we're talking about a personal loan contract, since at the moment that seems to be the most accessible type.

The old type of gold clause, which developed in the late 19th century amid "greenback" depreciation and uncertainty over whether the United States would stay on the gold standard, merely specified payment in US gold coins "of or equal to the present standard of weight and fineness." That was when US gold coins were recognized, circulating, legal tender. Now, however, with the growing *numismatic* value of even common-date coins, they might not make good standards of value for purposes of a gold clause. Better to specify bullion or bullion coins—or the dollar equivalent. But, if two contracting parties really want to deal in US gold coins and agree to specify payment in, say, 10 Double Eagles, it doesn't seem likely that a court would declare it unenforceable in most cases.

The potential problem with usury laws can be obviated by leaving interest payments out of the gold-clause arrangement.

The most obvious and simple formula would involve a loan of a certain amount and type of gold—either bars of bullion or specified bullion coins—and repayment in kind, plus a fee or "interest" for the use of the gold over the course of the contract, which might best be imposed on the initial value of the gold. This avenue has legal and tax advantages. In addition, as the Gold Standard Corporation mentioned in its October 1977 newsletter, they would be "far more prudent" than "dollar denominated gold agreements" in the event of price controls on gold.

Nevertheless, most contracts will probably provide for gold indexation (or "measure of value" or "maintenance of value") clauses, which seem safe enough and are probably infinitely more marketable. One method has already been mentioned: simply require that principal (and/or interest) payments be tied to the percentage increase (or decrease) in the (properly designated) gold price. Thus, if you lend $10,000 for a year, and the price of gold increases 10 percent, you are repaid $11,000, plus interest.

Another method would be to state the contract in terms of a certain number of ounces based on the current market equivalent of the dollar amount you wish to lend. Ruff gives the example of a $16,000 loan initiated at a market price of $160 per ounce. This yields a gold equivalent of 100 ounces. When the loan comes due, the borrower is then obliged to pay back the then-prevailing market value of 100 ounces of gold (plus interest).

Ruff adds a somewhat troublesome twist, however. He suggests a contract with three payment options: (1) actual payment of the 100 ounces in gold, (2) payment in the dollar eqivalent of the 100 ounces, or (3) payment in the original cash value. The lender would then be able to cash in on the appreciation of gold in event of inflation but would also be able to "demand payment of the face value in dollars" in the event of a *fall* in the price of gold. If you can get such a deal, fine, but it sounds a bit too much like "heads I win, tails you lose." A good many borrowers might insist that the lender hitch his wagon to gold either entirely or not at all—and accept the downside risk. Ruff would argue that a hedged borrower would have no objection to the cash-value provision, since he will have insured himself against all risks.

This may present no problem; it may be quite possible to arrange such terms, particularly with more aggressive, that is, more risky, borrowers. Obviously the more desperate a person is to borrow money, the more he will be willing to "sweeten" the deal for the lender. From the high-risk borrower's point of view, the gold clause may be just what he needs to get credit. At the same time, the lender must realize that to get a really creditworthy borrower and make a sound loan, he is not always going to be able to arrange the kind of made-in-heaven contract Ruff envisages—with enforced forward hedging, the original cash-value option, etc.

It's worth noting that European multiple-currency ("Lombard") bonds, which allow the investor to receive payment in a choice of currencies, have similar low-risk features. But precisely because of that, multicurrency bonds have become almost extinct in today's world of sharply fluctuating currency values. For a complete list of such bonds still on the market, see David Smyth's *You Can Survive Any Fin-*

ancial Disaster (Regnery, 1976). The newer European Unit of Account ("Eurco") bonds also have multiple-currency features but are far less advantageous for the purchaser, since the exchange rate for each currency, on which redemption value is calculated, is fixed at the time of issue.

COMPLEXITIES ABOUND

Even more elaborate formulas could be devised. For example, according to a Library of Congress study, two 1973 French bond issues—subsequent to the "Pinay bonds"—contain quite complex gold clauses. In one 4½, 34-year bond, floated to retire a similar 1958 issue, the redemption value, which is determined twice a year for redemptions taking place after June 1 and after December 1, "is equal to the nominal value multiplied by a coefficient which equals the average price of the 20-franc gold piece (Napole'on d'or) on the Paris free gold market during the 100 business days immediately preceding, respectively, May 15 and November 15, divided by 36 francs" (presumably the value—in "new francs" of 1960—of the Napole'on d'or at the time of issue of the 1948 series). The study observed that the redemption price of this bond "is not lower than 250 francs for each 100 francs nominal value, the apparent redemption value of the 1958 bonds at the time of the October 1973 conversion."

It is explained in the same study: "Another 7% issue contains a 'maintenance of value' guarantee that: is not tied directly to gold but instead to the ratio between the official gold content of the franc and that of the unit of account (U.A.) of the European Economic Community, the latter equal to the pre-1971 devaluation gold content of the US dollar (0.88867088 grams fine). The guarantee becomes effective when this ratio as it exists on January 1 of the year in which the transaction involving a bond takes place has lower value than the same ratio as it existed on the day of issue (January 16, 1973). The adjustment coefficient, applicable to both the redemption value and interest payments, equals the result obtained by dividing the day-of-issue ratio with the latest January 1 ratio. In effect, if the gold content of the franc decreases... the adjustment coefficient is greater than 1 and the redemption value in current francs is greater than the nominal value."

Only a government could come up with such Byzantine formulas! For the average person, the simpler the better.

One device, frequently mentioned as a gold-clause payment vehicle, is the gold deposit certificate, which is simply a warehouse receipt for gold. The most well known (and least-expensive) certificate is the Deak Gold Deposit Certificate, offered by Deak & Co. (Washington, DC). At this time it is not negotiable, however. Ownership of the certificate can only be transferred on the company's "Certificate Register" by surrendering it at Deak's Washington office and requesting the issuance of a new certificate to a designated person or persons.

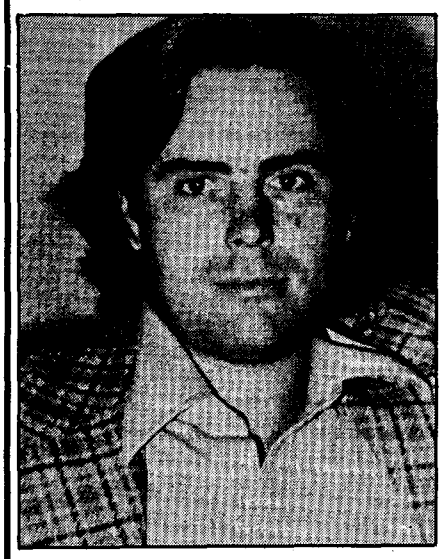
In his letter to Arthur Burns, Senator Helms specifically asked, "Do you foresee any restraints or regulatory prohibitions against banks issuing negotiable gold certificates?" He urged that *any* regulations be issued "with a view toward modifying them should it appear that they are unduly restricting opportunities of individuals and organizations to utilize the advantages these devices may offer." However the banking authorities rule, it is probable that any company attempting to issue fully "negotiable" certificates would find itself subject to onerous securities regulation by the SEC, even though their use in gold clauses would seem to be perfectly legal now.

The Gold Standard Corporation offers gold "transfers," similar to gold checking accounts, which could conceivably be specified as payment media in contracts. While these "transfers" are apparently gaining customers, they are far from being widely accepted. (Bank of America has recently come forward with a proposal to offer accounts and credit in foreign currencies. Senator Helms is shepherding this proposal through the regulatory corridors, having sent a letter on its behalf to the chairman of the Federal Reserve Board.)

Gold Standard has also been in the vanguard, along with certain other interests, of those investigating possibilities of gold insurance. This, of course, is an area that comes under the bailiwick of the individual state's insurance regulatory bodies. Gold Standard's Marcus Braun said his company contacted the Missouri Insurance Commission and got some good news and some bad news from its general counsel. The good news is that "insurance policies may be issued with the premiums and benefits in terms of gold." But the bad news is that "the reserves must be held in dollar-denominated assets." That, as Braun noted in a recent interview, "would destroy the whole thing. No insurance company in their right mind could afford to issue something like that." And, since insurance regulations tend to be uniform throughout the states, the same policy probably holds true in all 50 states, although there could be exceptions.

There is another interesting possibility. Braun said he and other individuals are working on an annuity-type program that would get around these objections. It would involve storing gold and paying out a certain amount in installments up to a certain age. Here is how such a plan might work: A person would put, say, $100,000 in gold into the program at age 40. Then two to five percent of that gold would be released to the investor each year until age 95, at the then-prevailing market price—either in terms of dollars or gold or gold "transfers." In the meantime, the gold deposits would be held in safekeeping. Conceivably, gold loans or gold collateral loans might be made, adding to the earnings of the investors' deposits. As Braun conceives it, "We would take 10% only when a person gets out of the program—10% of the residue. And then the rest of it would be divided equally between the estate of the depositor and the remaining depositors. That way, if you live long enough you could get substantially more than what you put into it." Shortly before press time, however, the Missouri Insurance Commission ruled that this plan would constitute an insurance program, and hence, gold could not be held as a reserve. But Braun has now persuaded a legislator to introduce a bill legalizing gold insurance reserves. While this action is pending, Sen. Helms has made inquiries about the feasibility of gold-clause pension plans with the Employee Plans Division of the IRS.

And so, for now the application of the gold-clause law is in a state of flux. But this new freedom has too much potential to be wasted. Whether you be an employer, a valued employee, a landlord, or a provider of venture capital or a seeker of same, you can begin to use gold clauses to start living easier with dollar depreciation. Just keep in mind some of the rules and precautions noted above. You should be all right if you consult your lawyer (and/or relevant authorities) and deal with persons you know and trust. ◻



Mr. Beckner is the editor of Deaknews, *Washington, DC.*

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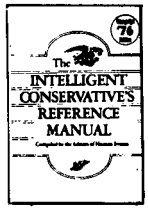

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TIME FOR STOCKS

If you missed the 1975-1976 bull market, another opportunity is coming up.

BY LLOYD L. CLUCAS

SEVERAL YEARS AGO, Japanese soldiers were discovered in the jungle on several South Pacific islands. They were soldiers from the Second World War who had survived alone for 30 years. Most of them didn't know the war was over. It is doubtful that they are today able to function effectively in their homeland.

What does this have to do with investing? Many of today's investors, preoccupied with protecting themselves against short-term price inflation, are much like those soldiers — ill-equipped for current opportunities. And opportuniites there are. Sometime between mid-1978 and the first quarter of 1979, common stocks will be at low valuation levels, historically and relative to alternative investments. Regardless of what one thinks about stock values, there should also be room for maneuver purely on a cyclical basis. It is important to take advantage of cyclical capital-gain opportunities to fight inflation. Anyone who missed the 1975-76 bull market has another chance coming up.

Granted, there will still be plenty of long-term negatives to worry about. But investors who stay away from the most government-infested areas stand a reasonable chance to do even better than the averages on their cyclical recovery.

Those who emphasize buying and holding "commodities," "collectibles," or the like as a defense against inflation often forget that timing is crucial to their success. Most "things" simply depreciate in value over time. During periods of stability, they tend to just sit there and corrode. The more useful and durable items (gold, gems) may fluctuate (widely) around the trend rate of price inflation, but the current trend rate doesn't foreshadow a huge increase in the price of gold relative to other commodities and the dollar. The elements that produced gold's spectacular 1970-74 bull market are not all present this time.

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For long-term investments, things which are likely to do no better than price inflation are just not adequate. Far better to go with value-adding business entities that figure out how to boost productivity and cut real prices over time. This is especially true in times of *relative* stability. It is very likely that we are entering one of those times—say for the next five years or so. There will probably be more inflation in 1978, but no new records exceeding 1973-74. The next important threat could well be a deflation in the mid-1980's. Until then, investors are getting a chance to do some catching up for the lost purchasing power of the past decade.

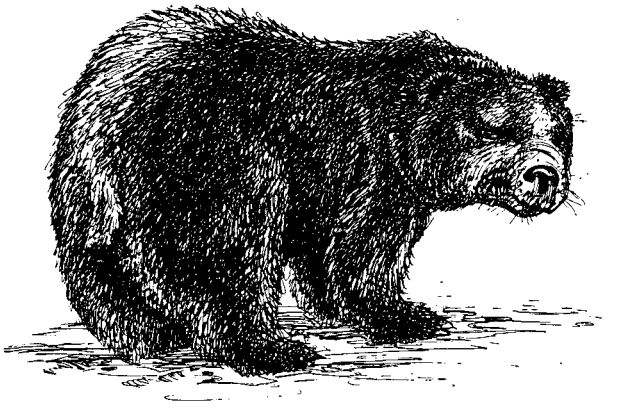
Investors are warned off taking advantage of periodic opportunities, however, with a doomsday litany that is now well known: the welfare state is expanding. Its spending accounts for 35-50 percent of the economic activity in the United States. Taxes are rising for the productive and falling for the idle. Government regulation narrows property rights. With the visible tax-bite high, extra government funds are generated by inflating the money supply. The new money gets spent first where the government wants it to be spent. The losers are those who must play catch-up. Meanwhile, the tax laws, plus inflation, encourage the use of debt in capital structures and in personal finances, increasing financial risks. The business climate becomes progressively hostile, rates of return decline, capital flees, and stock prices fall. Eventually people start discounting faster than the government can print money; somebody yells, "Whoa!" and the leveraged financial structure collapses into an economic depression.

Most of the litany is true. Also true is that primary-trend cycles often stretch beyond individuals' investment lifetimes. But there are some long interludes in the development of these cycles. Even the United Kingdom has some exciting bull markets (up 96 percent from late 1976 to late 1977, 162 percent from the end of '74 to mid-1976). The here-and-now is often nicer than the "long term," so we'd best learn to use it.

Psychological tests show that the longer a person has been looking at a picture, the more that picture can be changed without that person perceiving the change. Those who respect free markets have been right for quite awhile in their assessment of where the US government's actions would take the economy and the country over the long term. As well as these perceptual sets have served, however, they may blind the holder to periodic opportunities—like one-to-three-year major uptrends in stock prices. These perceptual sets have also been held so long that when a primary (decade-long) trend change develops, they may be very difficult to break.

A *Value Line* composite earnings and stock-price computation for 90 major US industrial companies, when indexed, and after the earnings are deflated by the Consumer Price Index,

produces the interesting 1965-77 overview shown in Table 1. (Numbers for '77 were estimated in 12/77.) More difficult adjustments are needed to produce "real" earnings, by accounting for inventory profits and underdepreciation of assets and then adding back gains on monetary liabilities. *Indicator Digest* recently ran a chart of US corporate profits with such additional adjustments reportedly made to an aggregate US corporate-earnings figure. Indexed again, and compared to an unweighted average of common stocks on the New York Stock Exchange, the results for the past years are displayed in Table 2.



From both sets of figures, even allowing for the very approximate quality of the earnings numbers in the second, the same set of relationships emerges: assumed equilibrium in 1965, overvaluation in 1968, undervaluation in 1974, and continued undervaluation in 1977—despite the market having been in a major uptrend from late 1974 through mid-1977.

Table 3 shows the Dow Jones Industrial Average with its earnings deflated by the CPI and indexed for comparison. Again, even allowing for flexibility in the earnings figures, the story is interesting. The old basic industry cyclicals that make up the DJIA don't show the current "undervaluation" suggested by the broader samplings. This may explain the market index results for 1977—a year of divergences in the market—shown in Table 4.

From the end of 1965 through the end of 1977, the Consumer Price Index rose by about 94 percent. Dividends of major US companies rose about 86 percent. Nice try, but no cigar.

After-tax returns on equity, with a full range of inflation adjustments by Prof. Burton Malkiel, of Princeton, are set out in Table 5. Current returns are running above 5 percent. Perhaps returns are eroding; or perhaps they are merely returning to a more "normal" level.

One thing is relatively clear from other data. The liquidity of US industrial companies has declined since the mid-1950's. Cash as a percentage of current liabilities has fallen from above 50 percent to less than 20 percent. Debt as a percentage of total capital has increased. As a result of the increased financial risks, one might reasonably demand a higher than normal return.

The last five years saw both severe economic and inflation trouble and a relatively good recovery. For the period, a *Forbes* 997-stock study showed the median stock price down 10 percent and only 39 percent of stocks up in price, with only 18 percent rising in price more than the CPI (up 45 percent). Table 6 shows the median annual profit and growth figures for all industries for the period. No adjustments for inflation have been made, and these are late 1977 numbers. (For the net return on equity, note the marked variance from Malkiel's adjusted figures in Table 5.) The current median debt/equity ratio was 0.4 (that is, for every dollar of equity there was 40 cents of debt). The median net income per dollar of sales (profit margin) was 4.7 cents.

There are three things to remember about price inflation and stock quotations: Expectations of flat or declining rates of inflation are associated with rising stock prices; expectations of increasing inflation are linked to declining stock prices; and when inflation goes up (down), price/earnings (P/E) ratios decline (rise). The switch from unexpected to expected inflation in the 1973-74 period had much to do with the severity of the worldwide decline in the markets.

The P/E ratio for a 500-stock index of the London Stock Market was in the 15-to-19 range from mid-1971 to mid-1973 while UK stock prices peaked. In 1977, that stock-price index was back to mid-1972 levels, but the P/E languished around 9. For the 1971-73 period, UK consumer prices rose at an annual rate of 7-9 percent. For the second quarter of 1977 the annualized increase was 16.5 percent.

While the absolute level of inflation has consequences for the market's overall P/E ratio, it doesn't have any bearing on whether or not a bull market in stock prices will develop. All that is required is a *stabilizing* of the inflation rate. The market can deal with stability—it discounts the inflation and gets on with its business. It was a sharp slowing in the rate of inflation that set off the 96 percent gain in UK share prices from late 1976 to late 1977.

How does all this translate into investment decisions? It is helpful for most investors to simplify as much as possible. That boils down to the following investment media for the following price environments:

Accelerating inflation:	gold
Decelerating inflation:	stocks
Stability:	stocks

Table 1. Stock Prices and Earnings for 900 US Industrials

	Avg. Stock Prices Weighted by Market Value	Avg. Earnings Deflated by CPI
1965 (prosperity)	100	100
1968 (speculative boom)	128	116
1974 (recession)	108	129
1977 (modest growth)	128	141

Table 2. NYSE Stock Prices and Aggregate US Corporate Earnings

	Stock Prices (Unweighted Avg.)	"Real" Corporate Earnings
4Q65/1Q66	100	100
12/68	142	98
12/74	36	52
6/77	70	166

Table 3. Dow Jones Industrials

	Stock Prices	Earnings Deflated by CPI
4Q65/1Q66	100	100
12/68	100	95
12/74	61	113
6/77	96	96
12/77	87	88

Table 4. 1977 Market Index

	Percent Change
NASDAQ (OTC) Composite	+ 7.33
Value Line (broad, unweighted) Avg.	+ 0.48
S&P 500	−11.50
Dow Jones Industrials	−17.27

Table 5. Inflation-Adjusted, After-Tax Return on Equity

	Percent
1957-61	4-5
1964-68	7-8.5
1970-76	3.5-5.5

Table 6. 1972-77 Median Profit and Growth, All Industries

	Percent
Sales Growth	12.4
Earnings/Share Growth	10.1
Net Return on Equity	12.9
Net on Total Capital	9.7

Decelerating deflation: stocks
Accelerating deflation: cash

It is the nature of all markets that they fluctuate—to extremes. There is elasticity in almost everything: from capitalization ratios, capacity utilization, labor productivity, and profit margins, to government deficits, monetary growth rates, bank liquidity, and investor expectations. Stock prices fluctuate around a somewhat less volatile progression of the real earnings from the production of goods and services. Can we determine, however, when stock prices show over- or undervaluation?

It is, of course, usually difficult to say what "intrinsic value" is in absolute terms. As good a measure as you're likely to find is the income being derived from an investment—in a company, land, apartment buildings, or what have you. Some people say, "Baloney! There are no intrinsic values!" But show them General Motors yielding 33 percent per annum, and some "intrinsic value" would probably come into focus rather quickly. The cost is out in three years (six years, after-tax), and the remaining earning power and liquidation value, if any, are all gravy. *That* is intrinsic value. The problem is more likely to be that one's own estimation of intrinsic value may not square with that of the majority of other market participants. And *that* produces upset tummies.

It pays to look around and check competitive "intrinsic values." Try the same exercise with silver coins, apartment buildings, gold bullion, antique furniture, stamps, and so forth. There's a good case to be made, in terms of intrinsic values—as well as on cyclical, psychological, and monetary bases—that stock prices will soon be flirting with investment-appealing levels while "things," real property, and "collectibles" are nearing or past the top of an upswing—where the "greater fool" (or "next Arab") theory is required to support existing quotations.

BULLISH ON STOCKS

In addition to these factors, it also should be kept in mind that common-stock ownership, compared to owning commodities or collectibles, is a horse of a different color. Equity ownership in a business enterprise gives the investor a share in a process of adding value. There is the possibility for technical or managerially induced efficiences and reduction in the cost of the "real product" produced by the business. The investor seeks *real* gains from the enterprise's endeavors. That may be possible. It isn't for the owner of collectibles, commodities, and the like, who have no value-added process going on that may eventually bail them out of an ill-timed investment. Stock ownership offers a chance to capture some of those surplus dollars being pumped into the economy; fixed income investments do not.

As opposed to outright commodity, collectible, or most real estate ownership, the stock market also offers the following advantages:

- Limited liability (in contrast to part-

nership arrangements)

- Relatively low transaction costs (3 percent for typical common-stock transactions—versus about 8 percent in real estate, perhaps 10 percent or so in gold, up to an extreme of 30-50 percent in collectibles such as stamps)
- Disclosure of a relatively large quantity of market and enterprise data (ever tried to find out what those Paul Painter watercolors are *actually worth right now?*)
- Relatively good liquidity (ever tried to peddle raw land at a price near the last transaction in a falling market?)
- Diversification (even within a conglomerate, one can get a wide exposure to different economic sectors, both in lines of business and geography)
- Relatively less forgery and fraud trouble
- Somewhat more manageable risk factors (for example the volatility of AT&T and its total return are considerably more stable and predictable than that of a bar of gold or a French Impressionist painting—although volatility, if desired, can be found in stocks).

For those who like the *really* long-term view, how about 1897-1975? Dow Jones Industrials, up 1,979 percent; cost of living, up 565 percent. The long-term trend is fairly steady in favor of common stocks, despite a few nasty 10-year periods. That doesn't include dividends. For 1926-76, Ibbotson-Sinquefield data show inflation-adjusted "real" returns over the long pull. Fixed income securities generally don't come close to competing with common-stock dividend income over the long pull. Dividends grow; bond interest doesn't.

Of course, during major uptrends in stock prices (one-three years), stocks invariably outpace inflation by a large amount. Even just the middle third of major uptrends is usually enough to do the job. Good growth companies, purchased at the right time in terms of the primary trend in stock prices (10 years and up) and merely held for the long term, can work out very well vis-a-vis inflation. So investors may well get good long-term "position" with purchases around the upcoming major-trend low.

Table 7. Inflation-Adjusted Returns, 1926-76

	Percent Change
Common Stocks	+ 6.7
Corporate Bonds	+ 1.7
Government Bonds	+ 1.0

CURRENT MAJOR DOWNTREND

At year-end 1977, unweighted market averages were still close to their mid-1977 highs. The Dow Industrials had wilted 17 percent from year-earlier levels, to 829, and they continued to limp downward in 1978. The broad general market totally lost its upward momentum. The picture in the first quarter of '78 is this: The market is vulnerable. Margin debt is at a record high. Odd-lotters are not pessimistic. NYSE members are relatively bearish. Institutions, talking cautiously, have been acting confidently. Bank and corporate liquidity is diminishing again. The economic expansion has aged although that goes unnoticed in some quarters: federal deficits are at a staggering $60 billion level and likely to expand, a stimulus far too great for an economy late in a cyclical *expansion*—someone always forgets the deflationary part of the Keynesian prescription. Monetary aggregates are expanding above trend at an alarming rate. Not surprisingly, price inflation is accelerating; interest rates are rising; bond prices are collapsing; the dollar is declining; and foreign investors are avoiding US stocks like the plague. And all of this explains why stock prices are turning south and likely to go further than generally expected.

So far in this expansion there haven't been as many distortions as accompanied the last expansion, suggesting that the cyclical contraction in the economy may be somewhat milder this time. Memories of last time's panic persist, though, and have a restraining influence on business decisions.

At the late 1974 lows, the DJIA's P/E ratio was 5.8; its dividend yield, 6.6 percent. Historically, these are attractive levels. The earnings yield was 17 percent. For the S&P 500, the P/E higher and the yield lower. Yields on the DJIA in the neighborhood of 7 percent seem likely before the current major downtrend ends. On estimated dividends of $46-$48 for '78, that gives a reasonable range of 657 to 686 for a low. That assumes the mild economic contraction scenario—with most of the bearish force coming from inflationary expectations reflected in interest rates and fearful memories of "last time." On the same assumptions, DJIA earnings of $94 seem reasonable. A low P/E of 6.5 to 7.0 would give about a 630 to 660 low for the DJIA in '78. That would be a high earnings yield for the year of 14-15 percent. This would not be out of line with the expected 9 percent peak average yields on Corporate Aaa bonds. With Aaa yields at 9¼ percent in '74, the DJIA P/E dipped under 6 at year-end. There shouldn't be as much panic this time.

Most of the doomsday litany is true, but there are still opportunities in the here-and-now.

Various market cycles and trend rates in stock prices suggest a major-trend low sometime in the second half of 1978—in the 600's for the DJIA. When most of the bearish factors noted above have begun to swing the other way, it should be possible to call a major-trend reversal to the upside with more specificity. In the meantime, the investor should wait with cash, perhaps some gold, and a few puts for the speculator. Bear markets are wonderful. They are one of the few times that the value of the dollar increases.

Let's assume that the DJIA does go below 700 in 1978. What will stock values look like? A good deal better than eight years earlier. The DJIA first reached the 600's in the early 1960's. It hit this area in 1970 and again in 1974. The general market, as measured by an unweighted averge of the NYSE, should be below 1964 levels. For the market as a whole, the buildup of values has probably exceeded that for the DJIA (see Tables 1, 2, and 3). If the stock market decline exceeds the contraction in corporate-earnings growth, values will increase even more.

Yields in excess of 6.5 percent on the

Dow Industrials historically have marked a relatively undervalued market. On the assumptions set out above, the DJIA below 700 would be "undervalued" on this basis. DJIA earnings yield would be around 14-15 percent,

Stock prices are turning south and likely to go further than generally expected.

which should handily exceed the competing high-grade government and corporate bond yields. And that takes no account of any earnings growth that may occur. Here, it should be noted that the quality of reported earnings is getting better. Research shows that inflation-adjusted (replacement costs) earnings are rising as a percentage of nominal reported earnings after a decade of decline (1966-76).

A little further out, the cyclical picture looks very bright. By early 1980, five out of seven selected, identifiable market cycles of four years or more should be headed up. That is a stronger cyclical outlook than has existed at any time since the early 1960's.

THE PRIMARY DOWNTREND

Stock prices have been in a primary downtrend since 1968—since 1965 if you only look at the old-time blue chips. Real corporate profits through 1975 had gone nowhere. Now earnings are forging ahead. Has the primary downtrend ended? Overall, probably not; but a worthwhile respite is in view.

In terms of the economy, it is rather clear that there has merely been a stall. There has been no deflation. There has been no great rebuilding of liquidity in the economy. Government has yet to get serious about curtailing its excessive deficit spending. Until it does, the economy cannot get the bulk of the distortions in it ironed out or even fully discounted. The debt burden and contingent future liabilities (pension liabilities, loan guarantees, letters of credit, etc.) are staggering. Adjustments will be required. Until such occur, long-term buy-and-hold investing isn't likely to be very rewarding.

New-high inflation rates, topping 1974's, do not seem very likely in the next few years. In free-market circles, that is probably heresy, but the shifting mood of the country supports this view. Consider the following: Businessmen remain cautious—so far, there have been no big inventory buildups or other spending sprees this time. Carter's presidency neatly captures the transition that is occurring—the dying New Deal on one side (they still dominate Congress), the emerging call for fiscal responsibility, peace, and tranquility on the other. The NAACP sides with the *Wall Street Journal* on the need for freeing up energy prices to better foster the economic growth their constituency now realizes it needs. The Rev. Jesse Jackson takes a new tack with his black activists in Chicago, calling for a return to discipline, the 3R's, hard work, and parental involvement in the ghetto schools. After years of disdain, college students are returning to business curricula in increasing numbers. Everyone is worried about inflation. The ascendency of the monetarist school of economics has raised the professional consciousness to the fact that money matters—inflating the supply has nasty consequences. Public confidence polls show all sorts of institutions being held in remarkable all-time low esteem after a long slide since 1972 (healthy attitudes that may prompt some positive changes). And finally, statist US Rep. Abner Mikva on tax reform (that is, income reallocation): "There's zero enthusiasm for tax reform among the people."

Caution prevails, skepticism abounds, the people want stability, and the message is seeping into Washington, DC.

So, from early 1978, here's some long-term projections: Inflation rates will rise during 1978, but not to new-high levels. The major downtrend in stock prices will likely reach the mid-600's in the DJIA. The decline will be badly overdone for most of the market. The depth of the undervaluation will be due in large part to the erroneous expectation that the economy is lapsing into another 1974 crunch period with new high inflation rates. The major downtrend should end sometime in the second half of 1978, perhaps as late as the first quarter of 1979. The ensuing major uptrend will probably be exceptionally strong. The one projected major bear market between 1978 and 1984 will most likely be relatively mild. The guess is that inflation rates will be relatively stable but troublesomely high during this period. Then, for 1983 or 1984, market cycle work (rough approximations), comparisons to past market history (a statistically insignificant sample), and guesses about political and social trends (very imprecise) all suggest that a severe economic squeeze will develop, very possibly featuring strong deflationary pressure. Stocks should be well overextended on the upside by then. The market's decline to lows around 1987 should be very severe. Assuming the marketplace survives all this, a very weak forecast would suggest the rebuilding process could establish another period of great undervaluation and despair, with a launching point for a new *primary uptrend* around 1996. Consider Table 8, with its perhaps too-facile comparison of the projected current primary-trend period with the last one.

View all the long-term forecasts

Table 8. Comparison of Primary-Trend Periods

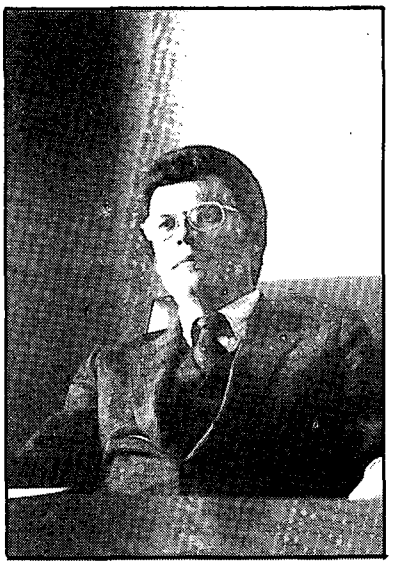
1919, 1972	DJIA tops out; important major bear market develops.
1921, 1974	DJIA bottoms out; peak rates of inflation just experienced; new major uptrend commences.
1921-29, 1974-83	Value of dollar increases (1921-29) or stops accelerating in its decline (1974-83); stocks rise considerably; set-backs are mild.
1929, 1983	DJIA tops out late in year; very severe bear market commences; deflationary pressures; panic.
1939, 1986-88	One or two important bear market lows are established.
1949, 1996	A period of great undervaluation in stock prices develops; a clear new primary uptrend emerges.

with some skepticism. But while the millenium probably has *not* arrived, there nevertheless appears to be an excellent opportunity brewing right now in the US equity markets. No other major country's economy or market looks as promising. When the time comes for holding shares of industrial enterprises, it would be a sorry commentary on their theory's relationship to the real world if free-market believers were still off in the woods gathering nuts and berries.

New-high inflation rates, topping 1974's, do not seem very likely in the next few years.

The time to start doing your research and drawing up your shopping list is right now, during the bear market—not after the turn has come. If you need help on timing, stock selection, or overall financial planning, go out and look for that help right now, too. After the rush to buy begins, it is a little late. Everybody is a hero in a bull market. You want to know what potential advisors had clients doing from mid-1977 through the end of the current major bear market. ◻

Mr. Clucas is a lawyer who regularly writes on the US and Japanese economic situations. His investment experience dates from 1963; his investment advisory work, from 1974.



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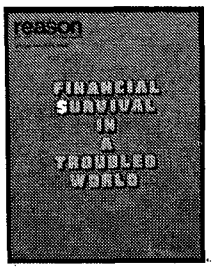
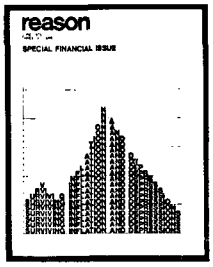


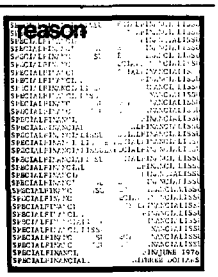


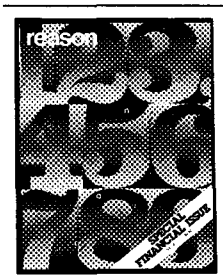
1975 Financial Issue

Harry Browne, William Rickenbacker, Murray Rothbard, Milton Friedman, and others cover tax havens, survival retreats, Swiss banks, penny gold stocks, Swiss francs, and much more.

1976 Financial Issue

The Cayman Islands, gold futures, tax shelters, counterfeit coin detecting, rare stamps... discussed by Rene Baxter, Walter Perschke, Jim McKeever, Dr. Harry Schultz, Gary North, Don Stephens, et. al.





1977 Financial Issue

Jerome Smith, John Kamin, Harry Browne, Mark Tier, and others on real estate, commodity options, multiple passports, survival preparedness, Swiss franc insurance, coin rip-offs, and much more.

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RARE COINS:

Ten Reasons To Invest

Take advantage of one of the last remaining free markets.

By Walter Perschke

THE TOPIC OF RARE COIN investment brings mixed responses from the average investor. Many have heard about spectacular profits but are concerned about their lack of expertise. And it is true that any new investment area requires some specialized knowledge, but this need not inhibit the novice. Lacking the time or the inclination to acquire this knowledge, one always has the option of retaining an expert in the field, either through an advisory service or through individual consultations. There is no reason why the potentially large profits of investing in rare coins should escape anyone.

Many sophisticated investors have been profiting from investments in collectibles since before modern markets were organized. Their secret of success was simple: buy proven rarity and hold. As the collectible markets broaden in interest and investor demand (typically in times of inflation and monetary uncertainty), greater fortunes will be made and preserved than in the past—and more quickly.

RISING VALUE

The first and foremost advantage of rare coins is *appreciation.* Clearly, the best way to preserve capital is to increase it. A comparative study of markets can show that the coin market combines the most consistent and stable appreciation with the least risk to the investor. Like any other investment, it's not foolproof. There are risks, but they can be minimized.

Even a cursory look at numismatic price history reveals astounding advances. Over the past 40 years, appreciation rates have averaged 10-25 percent per year (varying for different areas of numismatics). Since 1971, appreciation has been even greater. Consider, for example, the composite price indices (prepared by my research staff) for two particular rare coin portfolios, one in silver and one in gold. Each portfolio contains 12 different US coins, representing the most common date of each major design in brilliant uncirculated condition. Both of these portfolios were easily affordable in 1971, when retail prices were $1,492 for the 12 gold coins and $847 for the silver. By 1977, these prices had risen to $6,410 and $4,355 respectively. Many numismatic coins did considerably better than this sample, but the deliberate intention here was to select coins that were relatively common, affordable, and diversified. The accompanying chart graphically demonstrates the course that these two groups, and other intelligently constructed portfolios have followed in recent years.

The monthly high and low of the London P.M. gold fix was included in the chart for comparison with the price action of the numismatic gold coins. Note that the coins appreciated sharply in sustained bull markets in gold. The rare coins also demonstrated extreme downside resistance during the 1975-76 correction in both silver and gold. Because of their numismatic value, price corrections in coins have tended to be periods of dormancy rather than any severe decline such as that experienced in bullion. This is one of the major long-term advantages of rare coins for the investor: protection of purchasing power and capital appreciation without the extreme market corrections sometimes seen with other "hard money" investments.

The supply and demand relationship in rare coins is very bullish for prices. The supply side is continually reduced by natural disasters such as fires and floods; by mishandling of uncirculated and proof coins, which impairs their quality; and by the retirement of individual coins into museums or large private collections that may never be sold. Since US coins are not produced after their year of issue, the potential supply has a definite ceiling. The demand side steadily increases at all times, except in serious and prolonged deflation. The growth of population, greater affluence and leisure, and perpetual inflation contribute to increased demand. While demand may ebb and flow, it has been in an overall uptrend since records have been kept.

MINIMIZING RISKS

A second reason to invest in rare coins is their *low, low risk.* By following a few simple rules, their risk can be minimized. Of course, there are exceptions to these rules, but on the whole, you will come out ahead by following them.

- Never invest in coins that are less than 10 years old.
- Do not buy coins directly from governments.
- Buy coins only, not medals or nonlegal tender issues, and avoid even the legal tender issues of private mints. (Frequently, would-be investors purchase private mint issues, which they innocently refer to as "coins," but when they consult

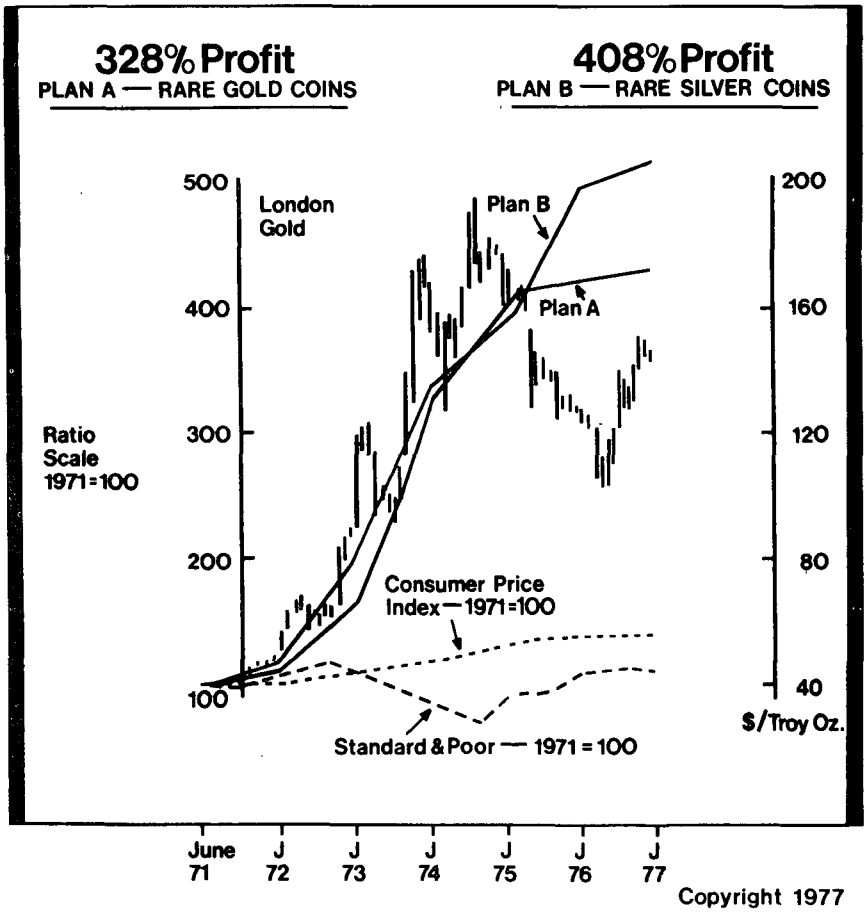
a rare coin dealer about the value, it usually turns out that they have medals, medallions, or silver ingots whose value is only the intrinsic value of the metal, probably 10-50 percent of the issue price.)

• Buy from a reputable dealer who has been in business for some time, preferably 10 years or more, and who will provide a written guarantee of authenticity.

Third, an important reason to own rare coins is for diversification. If you own no rare coins, you should start now to buy them. A good strategy is to invest 5-10 percent of your portfolio in a selection of rare coins, although some put 100 percent in rare coins and are quite comfortable doing so. Obviously, each person's situation is different, but don't let an academic discussion of which percentage is "best" prevent you from taking action. If you're skeptical, even one percent is better than nothing. Take a small portion of your funds and judge the results for yourself.

A recent survey by a national magazine showed that as income rose, so did investments in precious metals and "other investments" (other than savings, real estate, securities, and life insurance). In fact, twice as many people with a $40,000 or higher income invested in precious metals as in the $30,000-$40,000 bracket—and four times as many as in the groups below $30,000. The comparison in the area of "other investments" was almost as dramatic. Historically, the high-income brackets have been the "smart money." Although rare coins still represent a very small percentage of total investments, this market is clearly where smart money is moving.

The numismatic market is vastly underresearched, and this *scarcity of research* equals profit potential. While this factor may inhibit novice investors, those who do their own research or purchase the services of an expert are far ahead of the majority. There are still "sleepers" or undervalued issues that can be identified after careful scrutiny. This is a demand-sensitive, short-supply market. In some cases, the total market value of a given issue may not exceed $1-$2 million. This permits an occasional market "corner," but a knowledgeable or well-advised investor can take advantage of even this situation by liquidating into the rapidly rising market.



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FLEXIBILITY

Rare coins are very *portable*. They represent a concealable asset of high value and small size. Coins are frequently exempt from import/export regulations. There are no restrictions or duties on taking coins in or out of the United States. It is relatively easy to structure a portfolio of 10 or fewer coins with a weight of a few ounces and a market value of $50,000 or more.

With rare coins, you have a *liquid asset* with an *international market*. Coins are easily salable in most Western capitals, particularly in Europe and North America; and there are active coin markets in the Far East. Although the best market for a country's coins is generally within its own boundaries, there are some US coins that have stronger markets in other countries.

In the United States, the coin market never really closes. There are national teletype systems connecting dealers across the country, and there are no time or price limits on trading, as there are in commodities and securities. Unlike businesses, coins don't go bankrupt or suffer from fires, floods, strikes, or poor management. There are many dealers in the United States, along with an increasing number of coin brokers who will handle purchases and sales on a commission basis.

If *privacy* is important to you, consider the fact that the coin market is one of the

(*Continued on p. 36.*)

RARE COINS:
Reasons For Caution

You will quite probably lose money if you do not have some degree of expertise in numismatics.

by R.W. Bradford

A RECENT ADVERTISEMENT argues for investment in rare coins. It is illustrative of other pitches for investing in collectibles. The ad reports that certain coins the firm recommends had increased 250 percent in value over the 10-year period 1967-77, or 25 percent per year.

This certainly is cause for thought. Even in our inflationary age, a return of 25 percent per year is excellent. It compares very favorably with the 5-8 percent return available on savings, and it outperforms real estate and common stocks as well. In short, an annual return of 25 percent is an exceptionally high return on capital.

INCOME VS. PROFITS

Historically, most investments have been made into income-producing propositions—bank accounts or bonds yielding interest, real estate with rental income, or stocks with dividends. In such cases, measurement of yield on investment is relatively straightforward and simple. One need only divide the annual income by the cost of the investment. The resulting percentages offer a simple but reliable method of measurement.

Over the past few decades, however, these forms of investment have become less attractive. Bank interest and bond yields have failed to keep pace with inflation. Real estate has become subject to more and more government interference and regulation, resulting in greater complexity than many investors wish to cope with. And, for a number of reasons, the stock market has performed rather badly.

Consequently, more and more investors are turning to investment media that yield no *income* at all but stand a good chance of increasing in price. Precious metals, rare coins and stamps, collectibles of all sorts, and some commodities are held primarily for the potential price increase. And real estate and common stocks are sometimes held at least partially for these reasons.

These rather specialized investments offer certain other advantages as well. Profits realized from their sale are usually taxed at lower capital gains rates. The storage cost is usually quite low. There are no property or intangible taxes on holding metals, coins, stamps, or other collectibles. They are frequently undervalued in estates (or sometimes completely slip the tax collector's notice).

But the evaluation of price performance of these investments is not so simple or straightforward. First, because these goods are usually held over a period of several years, a substantial portion of their price increase may be inflationary in origin. Second, yield on investment over a period greater than a year is not directly translatable to annual yield because of the effect of compound interest.

COMPUTING PROFITS

Let us consider the investment in rare coins mentioned at the outset. The material increased in price 250 percent over a 10-year period. Thus, for each $100 invested in 1967, one could receive $350 in 1977.

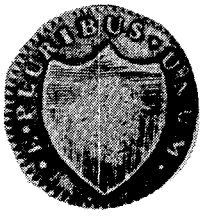
But the 1967 dollar and the 1977 dollar are different commodities. The 1977 dollar will buy much less than the 1967 dollar. In fact, according to the Bureau of Labor Statistics, Sepember 1977 dollars can purchase only about 54.3 percent as much as 1967 dollars. In other words, the $350 in 1977 is only equivalent to about $190.22 in 1967.

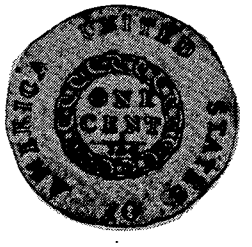
But that is an increase of 90.22 percent over 10 years, which comes out to an average of 9.022 percent per year. That seems like a reasonable return on investment, especially considering that it takes inflation into account. Or so it seems.

Unfortunately, it is not so. Such an analysis fails to take into account the effect of compound interest. Suppose you take $100 and invest it at 9.022 percent for 10 years, without withdrawing the interest earned each year. The accompanying chart shows the capital plus accrued interest at the end of each year. We see that if

Year	Amount	Interest
0	$100.00	0.00
1	109.22	9.22
2	119.29	10.07
3	130.29	11.00
4	142.30	12.03
5	155.42	13.12
6	169.75	14.33
7	185.40	15.65
8	202.49	17.09
9	221.17	18.68
10	241.56	20.39

the annual return actually was 9.022 percent, the total profit after 10 years would be $141.56—not the relatively paltry $90.22.





The original analysis quite clearly failed to take into account the effect of compound interest, which must be considered in order to figure out the return one receives *each year.* The actual rate of return on the 10-year coin investment is only 6.9 percent per annum. Not a bad return—but a far cry from the 25 percent advertised.

The formula for calculating the rate of return that accounts for the effect of compound interest is: $I = (FV/PV)^{1/n} - 1$. While the formula may appear confusing or complicated to those not accustomed to mathematics, it is actually quite simple conceptually. *FV/PV* is simply the ratio of the future value (*FV*) of the investment to its present value (*PV*)—that is, the value at the end of the time analyzed (after *n* years, or periods) compared to the value at the beginning of the time period. In our example, the ratio is 1.9022 (the inflation-adjusted return divided by the initial investment: $190.22 ÷ $100).

Evaluating the performance of nonincome-producing investments is not simple or straightforward.

To calculate the return per year, we must take the *n*th root of the ratio—that is, we must find what number multiplied by itself *n* times will yield that ratio. Ordinarily, this sort of calculation is complicated and time-consuming. Happily, many inexpensive calculators make it quite simple. To calculate annual return on investment using a calculator, simply follow these steps:

1. Divide the future value by the present value.
2. Press the y^x key.
3. Enter the decimal equivalent of the reciprocal ($1 ÷ n$) of the number of years involved.
4. Press the = key.
5. Subtract 1.

Using our example, the calculator will be display 0.069. To convert the answer to a percentage, multiply by 100, yielding 6.9 percent.

GET RICH QUICK?

What is the significance of all this regarding coin investments? Rate of return on coin investments (and other investments bought primarily for price appreciation) must be calculated taking into account the effects both of inflation and of compound interest. And proponents of investments (usually those who are selling them) frequently fail to take these factors into account, thus substantially overstating the rate of return on the investments they purvey.

The sales pitch of those selling such investments is often characterized by other inadequate arguments as well.

First, they frequently fail to take into account the difference between what dealers will pay ("bid") and what price they sell at ("ask"). In the case of precious metals or stocks, the difference is small, usually only a few percent. But in the case of rare coins or stamps (or other collectibles) the difference is quite often substantial. It is normally at least 20 percent. And in many cases, the difference is 100 percent or more— especially for firms that "specialize" in investments. Often the "specialist firm" actually specializes in selling to the credulous or the foolish.

The notion has gotten around that coins (or stamps) are almost always a "good investment." This is simply not true. The same *caveats* that one should remember in making any kind of major outlay apply to the purchase of collectibles as well.

The fact is, if you do not know quite precisely what you are doing, if you do not have at least some degree of expertise, then you will quite probably lose money on your investments—no matter what investment medium you choose.

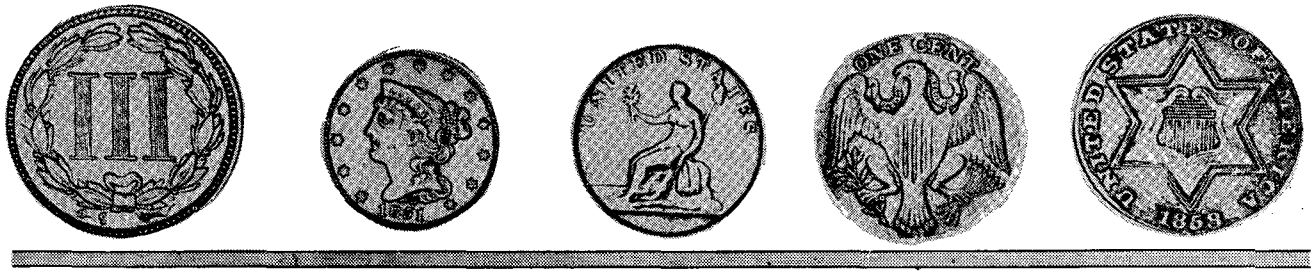
Second, such arguments for investment in collectibles often tacitly assume that past performance is a good indicator of future performance. They argue that an item that has increased substantially in price in the recent past is likely to continue to increase in price in the near future. If investment were that simple, we would all be millionaires. And while this idea makes at least superficial sense in the stock market, it makes no sense at all in the rare coin market.

A much stronger theoretical argument can be made that precisely the opposite is the case—that a strong upward price move is a good indicator that the given item is likely to stop moving up and may be due for a fall. For a strong upward move normally results in moving the item out of the reach of a certain number of collectors, thus reducing overall demand. And it will encourage some investors/collectors to sell and take a profit.

Of course, strong upward movement frequently attracts unsophisticated investors, and sometimes items continue to move upward in price as the result of their buying activity. But ultimately, prices cease to move upward when the supply of new investors runs out. Then the market moves sideways for a period. Some investors, looking for stronger performance and uninterested in such quiet markets, begin to sell their holdings. Prices fall. Others see the price drop and also begin to sell. Frequently a full-fledged panic ensues. And all the unsophisticated investors lose—although they rarely understand how it happened.

If it could be assumed that past performance is a good indicator or future performance, we would all be millionaires.

There is one other problem in evaluating the sales pitch mentioned at the beginning of this article: it is generally impossible to check the raw data. How can we verify the prices of 10 years ago and today's prices? Price lists and catalogues help very little: coins frequently sell at large discounts or premiums from the catalogue prices. And dealer price lists frequently contain inaccurately graded coins.

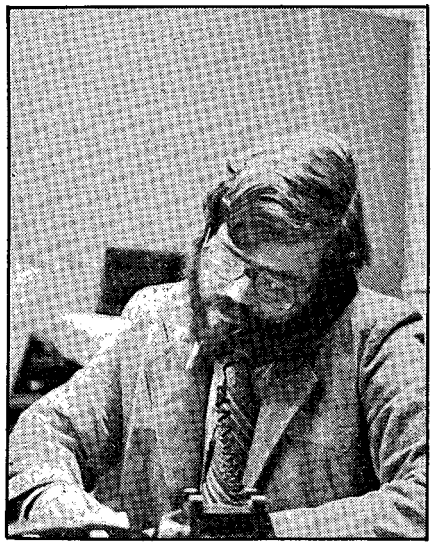


More importantly, the difference between two coins is often subtle to the point that it defies quantification. No two rare coins are identical, so a coin's value is always in the eye of the beholder. Numismatics remains an art, not a science. And the efforts to portray it as a science are more often than not attempts to increase the interest of unsophisticated "investors" in rare coins.

The notion that coins or stamps are almost always a "good investment" is simply not true.

The main tools needed to evaluate an investment in rare coins or other collectibles are the same tools needed to evaluate any investment proposition: common sense and a healthy skepticism.

There is no Santa Claus in any investment field. ◧



Mr. Bradford holds a B.A. in philosophy and is the proprietor of Liberty Coin Service in Lansing, Michigan.

Perschke

(Continued from p. 33.)

last truly free markets left. It is not subject to government regulation or record-keeping requirements, except for the normal business-practice and fraud statutes that cover all businesses. Because it is a cash market, it is relatively easy to consummate confidential transactions. Under the US Gold Reserve Act of 1934, no one was required to turn in numismatic gold coins. No one was prosecuted under the provisions of this act for retaining numismatic gold coins.

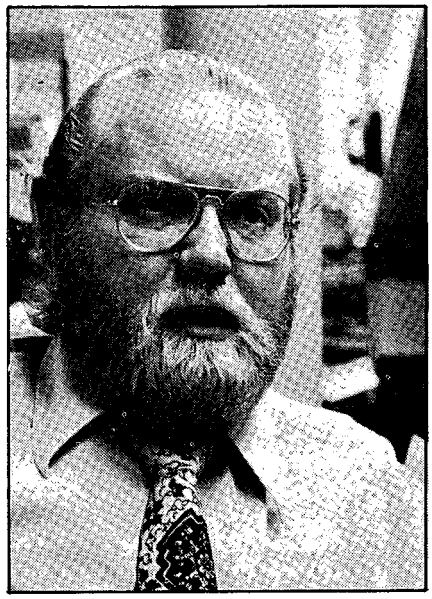
If you pay taxes in the United States, you can recieve *favorable capital gains treatment* on profits in coins. In addition, a recent IRS ruling has allowed tax-free exchanges in coins, permitting an individual to carry the tax base of an appreciated issue forward into a new acquisition.

Rare coins have *aesthetic appeal.* You can experience the pride of owning museum-quality rarities at a far lower cost than in other areas—for example, art. Many, if not all, European monarchs own cabinets of rare coins. The Caesars, the Borgias, and the Medici amassed large collections, as did the Dupont and Lilly families in more modern times. But you don't need the wealth of royalty to begin collecting or investing in rare coins. Many rare coins of the highest quality and known scarcity are available in the price range of several hundred dollars per coin. And they are beautiful.

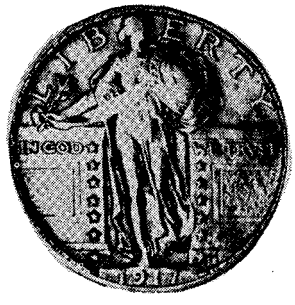
The last, and perhaps most important, reason to invest in rare coins is that they are the only *real money.* All coins issued by the US government are legal tender. Legal tender status greatly lessens the possibility of confiscation of a nation's coins by its government. The most important function of a monetary asset is to provide a store of value. Historically, rare coins have more than fulfilled this requirement, keeping their owners ahead of inflationary trends. Even in the incredible 3.2-trillion-to-1 inflation of the German mark in the early 1920's, rare coins provided a vehicle for retaining virtually all of the purchasing power of a person's assets.

When you consider the track record of rare coins, their low risk, their role in ensuring privacy and diversification—and all of their other advantages—it becomes obvious that some portion of your investment assets should be placed in a selected portfolio of rare coins. ◧

Rare coins demonstrated extreme downside resistence during the 1975-76 price corrections in silver and gold.



A financial consultant in Chicago, Mr. Perschke specializes in coins and is the president of Numisco.



Pockets of Free Trade in an Unfree World

Go East Young Man

by Alvin Rabushka

POSTWAR GOVERNMENT policy worldwide has been to intervene more and more in economic affairs, with an attendant rise in taxation, higher rates of inflation, and recession. However well-intentioned, the true effect of such intervention is that individual economic freedom is suffocating under the heavy hand of public regulation and inquisitorial systems of high rates of taxation.

The Pacific Area Basin has not been immune to this postwar trend of bigger government: government regulation, public economic activity, and outright planning have retarded economic growth in such nations as India, Pakistan, Bangladesh, Sri Lanka, and Indonesia; planned economies are the rule in Communist China, North Korea, Vietnam, Laos, Cambodia, and Socialist Burma. But a contrary trend has emerged in the same region of the world—one that takes the form of greater economic liberty and individual freedom. I refer specifically to the resurgence of "free-trade zones," also called "export-processing zones."

Finding pockets of free trade in an unfree world is not new. Francis Light occupied Penang in 1786 and began the free-port tradition. Sir Stamford Raffles followed suit and declared Singapore a free port upon its transfer to British authority in 1819. Hong Kong enjoyed free-port status upon its founding in 1841, as did the island of Labuan off the north coast of Borneo when it came under British administration in 1846. Other British free ports existed under colonial administrations in Tangier (1662), Gibralter (1705), Malta (1801), the Ionian Islands (1814), and Minorca (1824); and economic liberalism is still official economic policy in the Cayman Islands and Bermuda. The former colonies of Aden and the Bahamas were free-port regimes under British administration.

Since the mid-1960's a number of leaders in Asia have rediscovered the precept that economic freedom and rising prosperity go hand in hand. Taiwan best illustrates this post war story, but freedom and prosperity are contagious phenomena: free-trade zones have cropped up in the Philippines and Korea—and even in such unlikely locations as Liberia, Mauritius, and Egypt.

Let us pick up the story in 1945, when the island of Taiwan was returned to the Republic of China. Immediate postwar years were dominated by politics and military events. Since 1949, however, economic and financial officers in Taiwan's government have encouraged private enterprise. In 1954, for example, the government transferred to private ownership four large state-owned enterprises engaged in the production of cement, pulp and paper, industrial machinery and mining, and agricultural and forestry projects.

What were the motives underlying the establishment of an "export-processing zone"? First, Taiwan faced a phasing out of US economic aid. Second, Taiwan wanted desperately to attract more domestic and overseas investment capital to accelerate economic growth, create new job opportunities, and increase the nation's foreign exchange earnings. In the light of these priorities, export-processing zones emerged as a very appropriate vehicle to attain these goals and in the process increase economic opportunities and promote individual economic welfare.

What are the incentives that attract investment in the zone? The EPZs exempt customs duties on importation of raw materials, parts, and machinery and on exportation of finished products. Investors pay neither sales nor commodity taxes and enjoy a five-year tax holiday on corporate income taxes or an accelerated depreciation rate on fixed assets. Simplified procedures do away with red tape and bureaucratic procedures: the EPZ Administration is authorized to act for various government agencies and handle all phases of operations within the zone. These include investment application processing and approval, import and export licensing, foreign exchange settlement, company registration, and so forth. Taiwan's EPZ combines the features of a free-trade zone and an industrial area; it provides both liberal economic incentives and the necessary facilities to conduct all import and export procedures under one roof.

Free trade has made an important contribution to Taiwan's economic well-being. The Kaohsiung Export Processing Zone (KEPZ) was inaugurated on December 3, 1966, and all 69 hectares of land within its walls have been fully utilized by 143 export enterprises. To accommodate excess demand, the government opened two more zones in 1969, the Nantze Export Processing Zone (NEPZ) and the Taichung Export Processing Zone (TEPZ). NEPZ, also located in Kaohsiung, has a fenced-in area of 90 hectares; it is designed to accommodate about 200 export enterprises and is well over half subscribed. TEPZ, the smallest of the zones with but 23 hectares of land in central Taiwan, has admitted 44 export enterprises for production and is now at saturation point.

Trade figures reveal the dramatic economic benefits of the export-processing zone. In 1976 economic activity in the zones accounted for seven percent of Taiwan's total foreign trade. Far more significant are the overall balance-of-trade figures. In 1976, fully 62 percent of the nation's favorable trade balance was attributable to the economic activity in the zones, which only generated seven percent of the total volume of foreign trade.

If imitation is the sincerest form of flattery, Taiwan's economic policy is indeed flattered. Other Asian nations have established similar zones in their own countries along the lines of Taiwan's export-processing zones.

Korea established its Free Export Zone to encourage direct foreign investment in exports. The Masan Free Export Zone was set up in 1970, followed by a second FEZ at Iri four years later. Investors in the zone are guaranteed free overseas remittance of profits and dividends from the first year of operation; occupant enterprises are exempt from income, corporation, and property taxes for five years and enjoy a 50 percent reduction of taxes for the succeeding three years. (Korea's conditions are clearly competitive with those in Taiwan.) Simplified procedures minimize delays in the zone. In fact, the rules and regulations mirror those found in Taiwan. The Masan FEZ is an extraordinary economic success—the city of Masan literally doubled in

(*Continued on p. 56.*)

Why Silver Will SOAR

Silver's Fundamentals Indicate A Rewarding Decade For Investors.

by Charles R. Stahl

"STAY AWAY FROM SILVER" has often been sound advice in the past few years. But hold on to your hats! From a number of indicators, it looks like the coming attraction is silver: the superinvestment of the decade ahead. So here, by way of preview, are some flashbacks, current coverage, and projections.

Silver has the distinction of being the only commodity known that, year in and year out, is showing a production-consumption gap. For example, during this decade, we have experienced yearly consumption exceeding yearly production by as much as 245.4 million ounces—in 1973—and the gap has never been smaller than 113.9 million ounces, and that was in 1970. With such bullish statistics, one may wonder why silver has not gone continuously up in price but instead has traded in a very volatile fashion—moving from its 1971 low of $1.28 (based on the Handy & Harman spot price) to $6.70 in 1974, then ranging from $3.94 to $5.22 in 1975, starting off 1976 at $3.81, and so on.

There are various reasons for the wide fluctuations in the price of silver in recent years. One is the fact that the silver bulls are mostly confined to miners and the general public, whereas the professional traders usually trade this market from the short side. Then, of course, the Silver Users Association, since its inception, has been devoted to keeping the price of silver as low as possible. So there is a continuing tug of war between the bulls and the bears in silver.

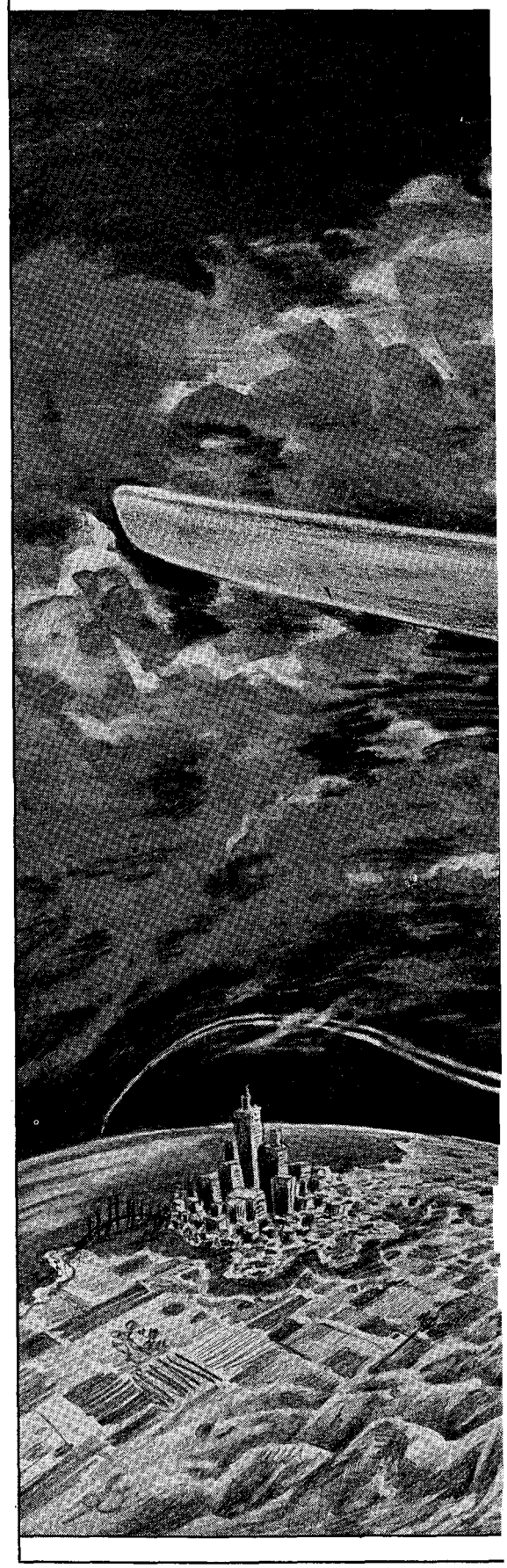
INDICATORS

Basically, in order to be able to profit from those very wide trading ranges, one has to follow certain statistics that give a good indication of which way the price of silver will go. For example, the open interest disclosed daily by both the Commodity Exchange (Comex) in New York and the Chicago Board of Trade (CBT) can be compared with price action. If prices are going higher while open interest increases over a period of time, it can be assumed that the market is in a sustained uptrend. On the other hand, when prices are going down and open interest increases, this has a bearish connotation, and further declining prices can be expected.

An excellent example of a bull move in silver can be found in the statistics for silver prices during 1977. When the price of silver reached $4.96 on March 18, open interest on Comex stood at 290,918 contracts. At that time, the nearby December delivery reached a high of $5.19. On August 23, December delivery was down to a low of $4.3830 intraday, and open interest had declined to 132,782 contracts. Then a bull move brought that price to $4.9670 intraday on November 4. Open interest again ran parallel, standing at 218,067 contracts on November 4.

Another excellent gauge is provided by the statistics of visible silver stocks—the silver stocks reported by the London Metal Exchange (LME), Comex, and the CBT as being stored in special warehouses approved by those exchanges. In 1977, from January to June, silver stocks in the United States increased at a clip of about 5 million ounces a month, for a total increase of 29.8 million by the end of June. In July, for the first time in 1977, total stocks of refined silver in the United States declined by 293,485 ounces. In August, the decline accelerated further, and by the end of October the stocks in Comex, CBT, and LME warehouses had all declined by a total of 22.4 million ounces, or 13.6 percent.

The decline in these stocks has to be a forerunner of higher prices, because nobody would withdraw silver stocks from exchange-approved warehouses unless there were simply no other silver available—those stocks represent the most expensive silver around. Added to the cost of transportation with elaborate security protection, there is a handling fee both for putting silver into or for taking it out of those warehouses; furthermore, in order to be good for delivery on the exchanges, silver bullion must be verified by exchange-approved assayers, which also adds to costs. Finally, the storage charges



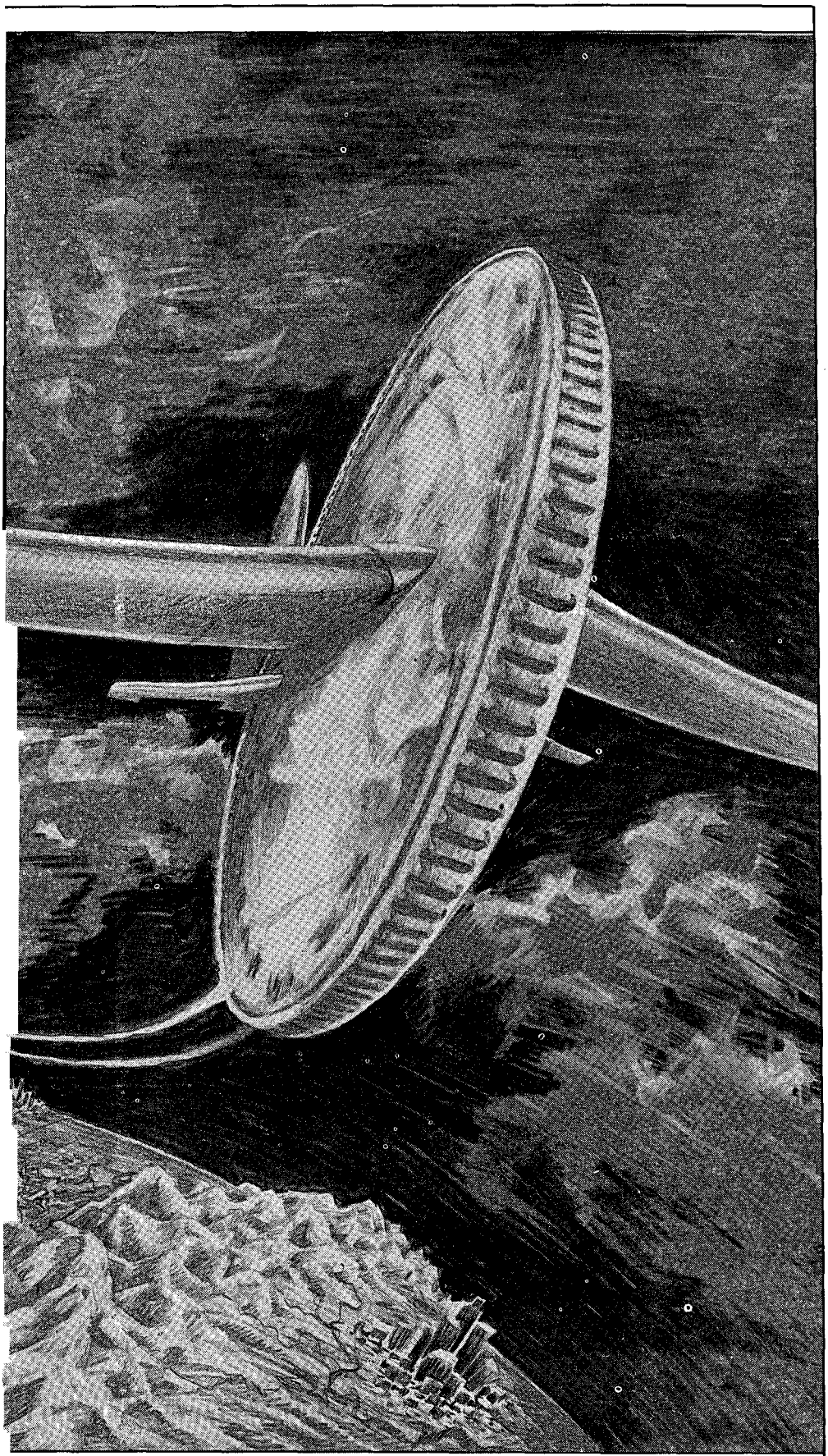


Illustration by Don Wood

in exchange-approved warehouses are higher than anywhere else. Therefore, when those silver stocks decline simultaneously and steadily, the best indication is at hand that prices will soon be on an uptrend.

The withdrawals of silver from exchange-approved warehouses in 1977 were due to the fact that Asarco and Amax, two companies that in 1976 delivered 61 million ounces of refined silver to their customers, suffered strikes of over two months at their refineries, so that their entire production during that period was lost and their customers had to turn to the exchanges to get silver. Also, exports of silver from India were markedly lower, which was more particularly reflected in declining stocks in LME warehouses.

INDIA'S SILVER

Besides those visible supplies of silver, there are other stocks of silver around the world, the most important one being the famous Indian hoard. Over the last four decades, India has been a constant exporter of silver, to the tune of about 40 million ounces a year recently. In addition, it consumes 15-20 million ounces domestically. During 1977, however, exports of silver from India declined precipitously—by 70 percent, according to the Silver Users Association. Whether or not Indian exports of silver will increase again soon is difficult to evaluate, but one thing is sure: during 1976 and 1977 India's foreign exchange reserves increased substantially and exceeded $4 billion by late '77—an all-time record indicating that India does not have any immediate need to acquire additional amounts of foreign currencies and therefore may prefer to keep its silver within its boundaries. Of course, should the price of silver rise dramatically, India might return to or even surpass its average sales of 40 million ounces per year or even more. But one has to bear in mind that if the Indian hoard were not available at all, the price of silver would be at much higher levels today, because part of the gap between new production and consumption has been covered for years by exports of silver from India.

Of course, even the Indian hoard is not inexhaustible, and during the next decade this will be noticeable for the first time. Over the years, there has been talk of three – five billion ounces of silver being stored in India. This amount obviously does not overhang the market, however, since part of it is in art and religious objects and in jewelry, which represent a much greater value in their current form than if they were melted down for their silver content. Knowing that, let's consider the statistics that can give us

some idea of how much silver there really is left in India.

Between 1874 and 1932, India was a net importer of silver. During those 58 years, the net imports of silver amounted to about 2.9 billion ounces of commercial-grade (see *Green's Commodity Market Comments, 1970*). Since we can safely assume that whatever was imported into India before 1874 is not available to the market, the 2.9 billion figure represents a starting point for calculating how much silver may still be in India in one form or another.

Between 1933 and 1969 the net exports of silver from India can be calculated at 900 million ounces, and during the same period the domestic consumption of silver for purposes other than jewelry amounted to about 50 million. In the 1960's, the industrial use in India grew rapidly, and in that decade India consumed between 100 and 150 million ounces of silver for its photographic, electric, and electronic industries. In the 1960's the silver smuggled out of India—so-called invisible exports—was estimated at 20-25 million ounces per year, with the exception of 1968, in which year exports exceeded 60 million. Taking all those figures into account, one can calculate that, as of the beginning of 1970, the amount of silver remaining in India was about 1.7 billion ounces.

The silver available for export and domestic consumption in India will be gone in about five years.

From 1970 to 1977, India's domestic consumption accounted for about 110 million ounces, and exports, which are now taking place legally, amounted to about 215 million. So the net amount of silver in India should be about 1.3 billion ounces—a far cry from what some people consider to be a monumental overhang of above-ground silver in India.

Now it is very difficult to evaluate how much out of the silver remaining in India is in silver bangles or other objects that have no greater value than their silver content. It is safe to say, however, that out of that 1.3 billion ounces, no more than 300 million could be counted as a potential supply to the West. At the export rate of 40 million a year (the rate at which India was recently filling part of the gap between silver production and consumption in the free world), plus meeting its own domestic demand at the rate of about 20 million ounces a year, the 300 million ounces probably available for export and domestic consumption in India will be gone in about five years. That in itself explains why silver can be referred to as the superinvestment of the next decade. But there are even more reasons that augur well for an upside move in silver prices.

THE U.S. STOCKPILE

Until a few years ago, several governments had plenty of silver to offer to users. No longer. As late as last year, the German government was still melting a large amount of silver coins and delivering the bullion to consumers, but that was apparently the last hoard of silver in government hands, other than the United States, that could have been made available to the market. In the United States, less than 20 years ago the Treasury had a hoard of silver of over 2.3 billion ounces. That hoard is gone; all that remains is about 40 million ounces in the US Mint and 139.5 million in the national strategic stockpile. The latter has often been used by silver bears to predict declining prices whenever congressional hearings are held to try to determine whether to release this silver into the market and whenever administration experts are evaluating how much silver should be in the national stockpile.

On September 9, 1977, at congressional subcommittee hearings on the subject of the stockpile, the Carter administration was supposed to release its assessment of what amount of silver should be in the stockpile. In anticipation, the price of silver dropped precipitously in August, but the hearings were anticlimactic; no new proposal was made, and it was only on October 7 that it was announced that President Carter had approved the basic principles of the stockpile policy adopted by the Ford administration. That meant that the silver stockpile objective was again equal to zero and that the 139.5 million ounces of silver in the stockpile could be considered a surplus to be sold over a period of years, contingent upon congressional approval. By that time, however, silver prices were already on the rise, and the market did not pay any attention to this new potential threat of silver sales, because the chairman of the Senate Armed Services Subcommittee, which handles stockpile legislation, announced that there would be no hearing on the subject of the stockpile until 1978.

Even if the subcommittee should come up with a recommendation to sell the silver from the national stockpile, it is doubtful that Congress will approve it. In 1976, when the Ford administration announced its zero objective for silver in the stockpile and a bill on that subject was introduced in the House, it was defeated; and in the Senate the bill never even received the approval of the committee. The chances for a release of silver from the stockpile are probably minimal. The United States is a net importer of silver and has been for many years. For example, in 1976 the net imports amounted to 73.8 million ounces. The 1976 consumption of silver in the United States was 171.8 million ounces, while domestic production amounted to 34 million. The fact that the United States has to import about 43 percent of its consumption each year is the best reason to maintain the national stockpile at the current level or to increase it slightly in order to have on hand the equivalent of two years of imports. As a matter of fact, a bill has been introduced calling for the addition of slightly more than 27 million ounces of silver to the national stockpile in order to maintain a two-year net import reserve.

There is another argument against the release of any silver from the stockpile. In the summer of 1977 the Air Force advised the administration that it would need 163 million ounces of silver for its MX missile program, to be used for batteries on trucks from which missiles, including cruise missiles, would be launched. Despite the fact that technical considerations were in favor of using silver-zinc batteries (which delivered more energy per weight than any other battery known at the time), the procurement people for the MX program were persuaded that there is not enough silver around to assure them of a supply of 163 million ounces even if delivery were scattered over a period of years and only 40 million ounces used in the first year of full production. At present, two contracts have been given by the Air Force to develop nickel-based batteries rather than the silver-zinc batteries, but that may be changed yet, in which case this potential new demand for silver could add to the upside pressure on prices and deplete above-ground silver inventories.

The use of silver in coinage, which had declined for a number of years, has begun to perk up again.

SILVER DEMAND

As a matter of fact, at the end of October Westinghouse Electric an-

nounced that it intends to start commercial production of a new silver-iron battery that would offer the highest energy density per pound of any battery on the market. The new battery is considered suitable for light and mobile propulsion power sources on land and under water, and Westinghouse called it to the attention of the Navy for possible use in its submarine programs. The new battery contains 347 ounces of silver and weighs less than 87 pounds. It is already used in telecommunications equipment in several countries. Its energy capacity is five times as great as that of lead-acid batteries of the same weight and twice as much as that of nickel batteries. Westinghouse approached the Air Force recently and suggested that its silver-iron battery be considered as the power source for the ground backup system of the mobile MX missile unit.

Now let us have a look at the consumption of silver in the United States, which is the largest user of silver in the world. In 1976 total consumption amounted to 171.8 million ounces, out of which the photographic industry consumed 55.5 million; electrical and electronic industries, 32.3 million; sterling ware, 19.8 million. The rest was used by miscellaneous industries, including 8.2 million ounces for commemorative coins and medallions. Incidentally, the use of silver in coinage, which for a number of years had been on the decline, has begun to perk up again, and in 1976 the worldwide use of silver in coinage was in excess of 30 million ounces—12 percent of the free-world production. Canada, France, and Austria led the list of 72 countries minting 180 types of coins containing silver.

(Silver coins as an investment vehicle is another whole subject, but it might be mentioned in passing that bags of pre-1964 US silver dimes and quarters were quoted at about $3,500 for a bag of $1,000 face value coins on the New York Mercantile Exchange in November 1977—which means that the coins were actually selling at a discount to their melt value. Obviously, they represent a better value than bullion, and in addition, because so many of them have already been melted, with the passage of time they should command a premium over their silver content. Probably the best and safest leverage in silver coins is to acquire the half-dollar 40 percent silver coins; they are selling fairly close to face value; so the downside risk is limited, because the coins can always be spent as money.)

The second-largest consumer of silver is Japan, and the third largest is Germany. Neither has any stocks of silver worth mentioning, and both will probably be substantial buyers in the near future; both countries are interested in reducing their balance-of-trade surpluses, and purchasing commodities like silver would serve that purpose and at the same time assure them of silver supplies acquired at reasonable prices.

Based on currently known uses, the annual growth of silver consumption in the Western world can be pegged at about five percent for a number of years. There is the potential, however, for an additional, very large demand for silver if and when solar energy comes into widespread use, since silver would be needed for the production of mirrors to collect the sun's rays. One facility using silver mirrors for that purpose has been in operation for about a year in France, and in the United States the Energy Research and Development Administration announced in August that a design had been chosen for a $100 million solar power mirror system to be built near Barstow, California. This experimental project will collect sunlight onto 1,500 40-square-meter mirrors. Of course, it will take years for the widespread use of solar energy in the production of electricity to become a reality, but it is encouraging for long-term silver investors to know about this potential demand for silver.

In another field, a potentially large market for silver may be created by a new silver-coated light bulb that lasts three times as long as a conventional bulb and uses 60 percent less electrical energy. The bulb is coated with a layer of silver between two layers of titanium oxide; it transmits light but conserves heat by reflecting infrared radiation back onto the filament. The new bulb will cost more than ordinary ones but will offer savings in electricity. One company expects to put the bulb on the market in 1978. Of course, the amount of silver used in each bulb is very small, but should consumers prefer the new bulb, the total demand for silver for that purpose may be significant.

It is not unreasonable to project that the use of silver in batteries will also increase substantially and that three – five years from now many automobiles for city traveling will use silver-iron or silver-zinc batteries to save on the consumption of oil. Other potential uses for silver are currently being developed, but those already mentioned are substantial enough to create a real shortage of silver some time in the 1980s. Nowadays, new mine production covers only about 62 percent of the current silver consumption. Once new applications of silver become a reality, that gap will widen further and put an upside pressure on the price. (Those interested in new applications for silver can obtain the Silver Institute's monthly *Letter* (free) or quarterly *New Silver Technology*. The Silver Institute located in Washington, D.C., studies reports of worldwide research on silver and silver products and publishes those most likely to affect silver and the silver industry in the near future.)

PRODUCTION AND PRICES

A reasonable estimate is that world silver production will increase by about five percent in 1978 and by only two percent per year in 1979 and 1980. Those figures, of course, do not include Communist-world production. Whatever silver is produced in the Soviet Union and other Communist countries is consumed domestically, however, so that it does not affect the total supply picture of the West. As a matter of fact, it was rumored at the beginning of last year that the Soviet Union had purchased some silver from Peru. Incidentally, by the beginning of next year, the Soviet Union will have to enter the free-world market to purchase substantial quantities of silver, which it will need for the silver coins commemorating the Olympic Games in Moscow in 1980. It is difficult to evaluate how much silver would be required for that purpose, but judging by the previous demand for Olympic silver coins in Canada, West Germany, and Japan, it will probably not be less than 25 million ounces.

So the projections are for silver consumption in the Western world to increase by *at least* five percent annually in the near future and for production to match that percentage in 1978, then drop to a two percent annual increase. In the years to come we will probably see a growing need for silver by current users, and new uses are likely to find worldwide acceptance. With supplies increasing at a slower pace, prices have got to move upward.

When considering current silver pro-

(*Continued on p. 54.*)

Mr. Stahl is president of Economic News Agency in Princeton, New Jersey. This article is adapted from his speech at the recent Gold, Monetary, and Economic Conference in New Orleans.

ARE YOU WASTING MONEY ON LIFE INSURANCE?

Illustration by Audrey Brewer

The "Buy Term and Invest the Difference" Pitch Has Taken In Many Unwary Buyers.

by David Lloyd Sutton

IT HAPPENS ALL TOO OFTEN—some "investment advisor" hooks the unwary on "buy term and invest the difference."

"Buy term and invest the difference"—mercifully abbreviated here to BTID—has reappeared periodically ever since cash-value life insurance was invented. As each new crop of hopefuls has lost money on it, it has subsided or shifted practitioners or locale. But there is much ignorance or confusion among life insurance consumers.

This article is aimed at the investor who has no insurance background. In order to have a discussion of BTID, it is necessary to first describe the more common forms of insurance.

Life insurance is a rather simple idea. Since it is possible to determine the statistical probability of death for a given age group, it is also possible for many people to join forces to indemnify one another against the possibility of that statistical probability becoming an individual concern. Everyone dies sometime, usually without prior knowledge of the time of

death. Life insurance mitigates the financial consequences of death (indemnifies), whether anticipated or unforeseen.

WHAT IS TERM, ANYWAY?

The most primitive form of life insurance is *natural premium term insurance,* most frequently encountered as *yearly renewable term.* Term insurance is a life insurance contract that promises to pay a specified amount (the face amount) to the beneficiaries of the insured if the insured's death occurs during the term of the contract. And that's all. If you die during the term, you win.

Premium refers to the payment(s) for an insurance contract. A natural premium is one that increases as the insured grows older, due to the increasing possibility of death. So with natural term, the life insurance contract follows Figure 1.

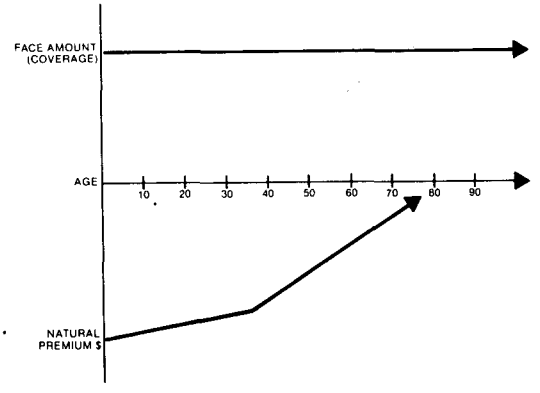


FIGURE 1. NATURAL PREMIUM TERM

Some obvious observations are that natural premium term costs a lot of money after age 65 (and is no bargain after age 40), that the insurance under this contract is pure cost, and that there is nothing left if premium outlay ceases. There is term insurance on the market that is renewable to advanced ages, but a safe prediction is that any form of term insurance will be an expensive proposition after age 65. In fact, the vast majority of insurers do not offer the stuff for issue after that age.

There are various arrangements of term. Most of them use a temporarily level premium, rather than a natural one, and offer decreasing coverage as the insured grows older. The most commonly encountered of these is *yearly decreasing term,* offered for terms of 5-30 years. In such contracts, the natural premium hasn't disappeared; it has simply been transformed. You pay a level premium throughout the term period, and you are insured for less face amount for the same premium dollar each year (see Figure 2).

The obvious application for these contracts is indemnity against death during a period of declining indebtedness. Hence, yearly decreasing term is frequently sold as "mortgage insurance"—a misnomer, as mortgage insurance is legally another kettle of fish that does not concern us here.

There are hundreds of variants of term insurance, but with the basics in hand we can move on to the more sophisticated realm of cash-value life insurance.

THE CASH VALUE INSURANCE

Cash-value life insurance is most commonly termed *ordinary* or *whole-life* life insurance. These contracts vary greatly in structure and performance depending upon the type and quality of company offering them. The three classifica-

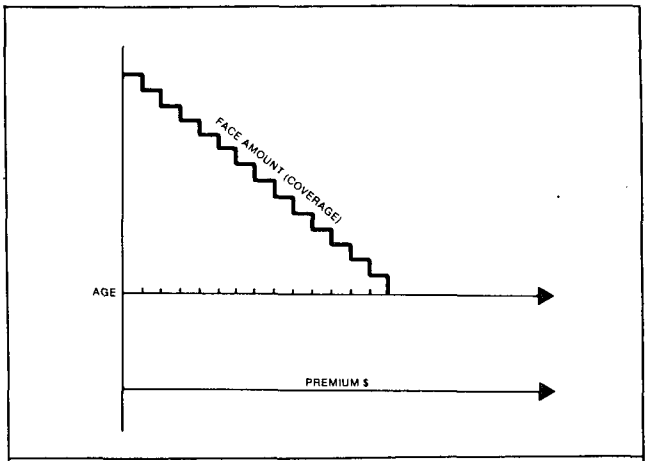


FIGURE 2. YEARLY DECREASING TERM

tions of underwriting, or insuring, companies are: stock companies, mutual companies, and "mixed" companies.

A *stock company* is one that is owned by stockholders. Contracts issued to indemnify against death of the insureds guarantee a cash value for the end of each policy year, following amortization of commission, loading, and mortality costs. Any profit made (that is, return above guaranteed cash values) is shared among stockholders or reinvested. This type of company varies widely in rates of return, liberality of contract provisions, and general packaging, but Figure 3 illustrates generally how contracts issued by such companies function.

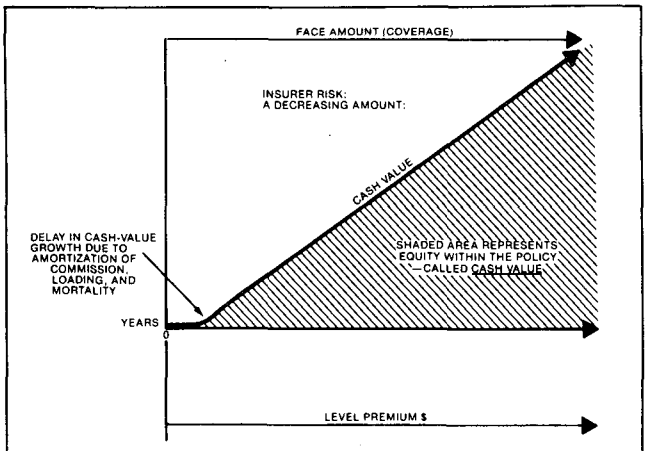

FACE AMOUNT (COVERAGE)
INSURER RISK: A DECREASING AMOUNT:
CASH VALUE
DELAY IN CASH-VALUE GROWTH DUE TO AMORTIZATION OF COMMISSION, LOADING, AND MORTALITY
SHADED AREA REPRESENTS EQUITY WITHIN THE POLICY —CALLED CASH VALUE
YEARS
0
LEVEL PREMIUM $

FIGURE 3. STOCK-COMPANY CASH-VALUE LIFE INSURANCE

Here we have achieved both a level face amount (coverage) and a level premium. The mechanism is elegant.

Should the insured die, the cash value is absorbed by the company, and the face amount is tendered to the beneficiaries. Should the insured live beyond the period for which he wishes to indemnify against his death, he may liquidate the contract and extract the cash value. In addition, the insured usually has the contractual privilege of borrowing up to a specified percentage of the cash value at a guaranteed rate of interest. This greatly reduces the tie-up of liquidity otherwise attendant upon such a contract and provides for many millions of persons their only infallible source of credit. The availability of such loans is, as stated above, a contractual guarantee.

Stock-company cash values frequently fail to equal premium

outlay and often are rather pathetic reflections of weak companies. Nonetheless, ordinary or whole-life contracts with the worst of such insurers do indemnify against the financial consequences of death (though term does that) and are reasonably continuable into later life. With the better insurers in this category, the cash values are significant, and premium outlay is generally less per unit of coverage than with mutual companies.

Note, however, that the one really significant lack in the offerings of such insurers is that there is no protection against the effects of inflation, other than the obvious one of premium payments being in increasingly inflated dollars as the contract continues.

The obvious shortcomings of the whole life contracts issued by the stock companies are most frequently played upon by the peddlers of BTID, who conveniently ignore or denigrate the solutions offered by the best of the mutual companies.

Mutual companies are owned, not by stockholders, but by the policyholders themselves. Such companies typically issue policies termed *participating*—meaning that the owner of the contract participates in the profits of the insuring company. Shared profits are called dividends, just as such profits are in stock ownership situations. Guaranteed cash values are represented, usually lower than those for similar coverage by stock companies. (Salesmen for stock companies tie themselves into intriguing knots trying to make the "guaranteed" in "guaranteed cash values" outweigh the overwhelming differences in return between their products and those of the better mutuals.)

Dividends paid by a mutual company are *tax free*, since the IRS defines such dividends as return of excess premiums. We have a hard-working insurance lobby in this country, and very deep support among legislators of all persuasions. That definition is very, very unlikely to change, technically incorrect though it is.

Usually, the dividend is available for a variety of uses, to be discussed later. For now, to illustrate a mutual-company whole-life contract, Figure 4 shows the dividend, paid annually after amortization and accumulating at interest. Graphically, the only real difference between Figure 3 and Figure 4 is the presence of a dividend. We have a level premium and apparently a level face amount, just as in the stock contract. Observe, though, that we have actually achieved a couple of other very important things. First, with the dividend retained at interest as shown, or with the dividend being used to purchase either additional paid-up insurance or whole-life additions, we in fact have *increasing* coverage to offset increasing insurance needs *and a mechanism to reduce the effects of inflation.* More on that in a while.

Mixed companies are those which issue (surprise) both participating and nonparticipating policies. We need not consider them separately.

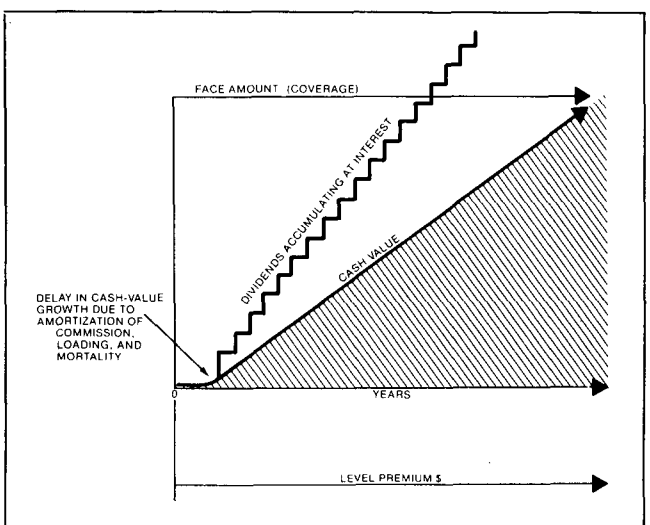


FIGURE 4. MUTUAL-COMPANY CASH-VALUE LIFE INSURANCE

MUTUAL ADVANTAGES

It should be obvious that the whole-life contract can be participating and still not be worth a hill of beans if the issuing company doesn't turn a regular profit. As stated above, the cash-value guarantees are generally lower in participating contracts. So the virtues of such contracts depend on the quality of the company offering them. The virtues of a good mutual-company contract can be seen by examining the specific New York Life contract illustration in Figure 5. We have a $100,000 policy on the life of a 30-year-old male. (Women, statistically, live three years and a smidgen longer, and their policies cost less). Assuming that the dividend remains at the 1977 level, and that the company continues to pay 6.25 percent on dividends left with the company at interest (a pessimistic pair of assumptions!), then in the 10th policy year, having paid $16,776 of premium (monthly payment by bank draft; annual rates are better), the combination of guaranteed cash value and dividends accumulated at interest, referred to as "total cash value," will be $17,085.

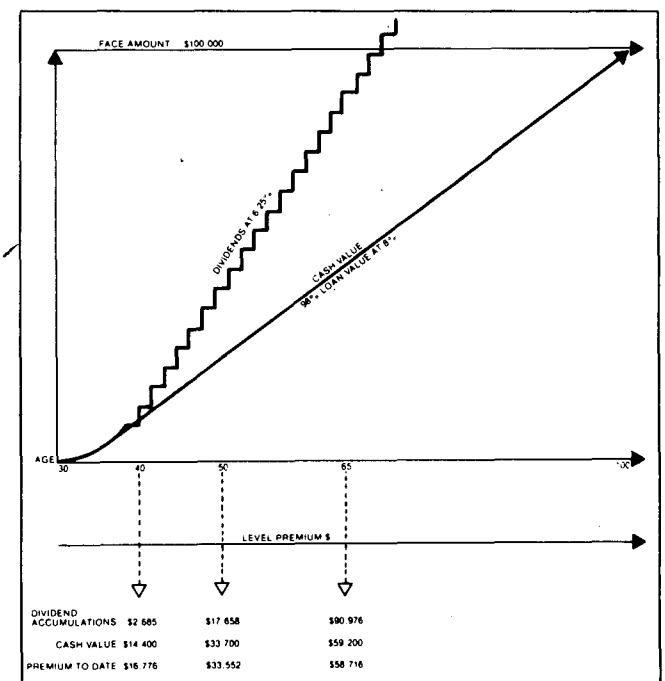


FIGURE 5. A QUALITY WHOLE-LIFE CONTRACT

Because we have assumed successive payments of increasingly inflated dollars, we may partially disregard the effects of inflation. Remember, also, that we have chosen a top-line company with a long, unbroken record of dividend payments, and the dividend reflects this profit structure; so we can safely leave inflation out of the picture just now.

We have, then, a return over premium outlay of $309 in 10

years. That $100,000 of coverage hasn't cost a penny! At this point there are $2,685 of dividend accumulations, which can be stripped out if desired, and a cash value of $14,400; $14,112 of which (loan value = 98 percent of cash value in this policy) may be borrowed at eight percent if desired.

After 20 policy years, these figures are $51,358 of total cash value, consisting of a guaranteed cash value of $33,700 and dividend accumulation of $17,658. The total premium outlay is $33,552. At the insured's age 65, following the same assumptions, total cash value will be $150,176, total premium outlay $58,716. At that time, $59,200 would be the guaranteed cash value. Still disregarding inflation, should the company never pay another dime of dividend after initial sale of the illustrated policy, the coverage over 35 years would cost nothing but temporary liquidity tie-up.

One really significant lack in the offerings of stock-company insurers is that there is no protection against inflation.

Of course, we cannot ignore inflation altogether, any more than we can ignore the possibility of devaluations, runaway inflation of the Austrian variety, or widespread atomic holocaust. Because the participating contract is open-ended, it is safe to assume that currently occurring rates of inflation can be accommodated by the reflected profit structure, as postulated above. Devaluations of the American currency relative to the other world currencies are met best by possession of gold, silver, and large doses of fortitude. Here, the flexibility of the whole-life contract becomes very evident. Immediate anticipation of such a currency shift may be met by stripping out the dividend accumulations and fully borrowing up the loan value (98 percent) of the cash value, leaving a whopping two percent of the current cash value subject to devaluation. (You bought gold futures or the real thing with the cash, right?) Following readjustment of the economy, the cash value may be fleshed out again to regularize the policy if desired. Current time for such a course of action is around eight days on the West Coast for NYL. It can be done faster, but remember the 90-day clause on savings deposits, similar hedges against runs on other forms of cash tie-up (such as certificates of deposit), that habit of closing the market when stocks drop drastically and there is possibility of a panic.

Cash-value life insurance represents readily available money for the wary money-market watcher as well as for the average family. For atomic holocaust, shred the contract and use as you would an out-of-date catalog—sorry. But in the Great Depression, banks went like tenpins, and insurers puttered along at the same old stands. In the stock market setbacks of 1966, 1969, 1970, and 1975, cash values continued to be paid at the guaranteed rates and the dividends of the big mutual insurers never even boggled.

BTID VS. WHOLE-LIFE

Now we have some specifics for discussion, and we can begin on BTID. The basic argument for BTID is that it is theoretically possible to take the same dollar outlay as a whole-life contract entails; buy term insurance to match; and, through astute management, better the return on the dollar outlay, by using the difference between the price of term and that of whole-life as an investment base.

An interesting observation at this point is that the whole phenomenon of BTID is usually targeted on the already allocated whole-life dollar. Seldom is the victim new to insurance. The war cry of the BTID peddler is "How much money are you wasting on life insurance?" Most BTID schemes are assembled to take advantage of money that is already budgeted as long-term outgo, money that is more vulnerable than that available for elective spending. The BTID peddler has a good idea that the consumer doesn't fully understand his policy and knows that people like to be considered unique and self-directed. So the whole-life contract is represented as good only if you have no self-discipline to manage your own money or are unable to cope with the intricacies of finance. Of course, those who buy the BTID scheme often find that they have less control of their finances than they had with their old whole-life contract, but it is an expensive lesson to learn.

Cash-value life insurance represents readily available money for the money-market watcher as well as for the average family.

This aspect of BTID persuasion is occasionally quite ruthless. I recently heard of a chap who is preying on the members of a fundamentalist religious group, packing along a Bible to demonstrate his piety and to assist in establishing the expectation that the world is going to end in another 17 years (exactly). With this approach, he succeeded in replacing a great number of whole-life contracts in religious homes. That sort of callousness seems to be little short of criminal, but it is making money for the perpetrator.

I am not going to say that it is *impossible* to use term, invest money that otherwise would be put into a whole-life contract, and wind up with more money than a whole-life contract would yield. But to thus increase the return on your premium dollar means increasing the risk or decreasing the flexibility of your investment in whole life. Whole life is not the only thing you should have in your portfolio; it is the first thing you should have there if you have a dependency situation or intend to establish such a situation.

Let's look at some figures for New York Life early renewable term insurance for our hypothetical man. A $100,000 yearly renewable term policy will cost, for that same 30-year-old male, $3,241 over 10 years. That much, despite the fact that such term insurance with NYL, unlike any other term I've ever heard of, pays a dividend after the third year. Of course, only the cruder forms of BTID use yearly renewable term, but many are very crude indeed; and this form will make a point without going into generation-long comparisons.

Consider the dollars available for investment, after substituting yearly renewable term for whole life. In the first year, there is $120 available every month. By the 10th year, the price of the term has increased to the point where there is only $100 available every month in that year. Now, any investment must overcome the pure cost of insurance and yield enough to beat the perfomance of the whole life. Can it be done? Of course. But without increasing the risk? Highly doubtful. And the cost of reentry to permanent insurance, should it be needed for later life, has gone up. Assuming that the price of that particular contract remains the same for 10 years, $100,000 of whole life initiated at age 40 would entail outlay of $24,336 for 10 years as opposed to $16,776. That's quite a penalty for a decade of BTID.

So if you anticipate a need for insurance in your later years, you are unquestionably better off using a whole-life contract initiated as early in your life as is feasible. Term carries a con-

version privilege, as a rule, permitting the later purchase of whole life of like amount. So term as a temporary solution to your insurance needs is not to be despised if that is all you can afford or if your insurance needs are truly temporary. As a rough rule of thumb, if you anticipate less than 10 years of need for insurance, you might consider term insurance rather than whole life.

UNMENTIONED FACTORS

The cruel part of the BTID scenario is that the vast majority of victims never invest the money "freed" by dropping their whole-life contract and substituting term. In that case, a person who had made a good sound investment at an age when it was, perhaps, feasible for him to realize something from the whole-life contract finds himself saddled with an increasingly expensive term contract that never pays back a dime. Or, the "difference" *is* invested, but the investment doesn't perform quite the way it was supposed to, or it just plain flops.

The cruel part is that the vast majority of victims never invest the money "freed" by dropping their whole-life contracts.

There are BTID schemes available that are quite complex and present much more sophisticated arguments than that Bible toter I mentioned. One of these was presented in the *Ruff Times* in July of 1977. As closely as I could figure out from the article it involved ten year renewable term, renewable to age 100, which is unusual, and a form of investment through an insurance company which carried stringent penalties for early withdrawal. Great stress was placed on the "confiscation" of cash values that occurs when someone dies holding a cash-value policy. As demonstrated earlier, however, if there is no buildup of cash values to reduce risk to the insurer, there can be no *permanently level* premium arrangement. But this is casually or venally ignored by those who are attempting to shake loose a premium dollar or two.

The *Ruff Times* scheme was interesting in that the verbal gymnastics were particularly tortuous; after discarding mutual company dividends from consideration because of their tax-free status, the fellow who was selling the BTID idea mentioned that the investment portion of his package was tax-free as it earned and on distribution because of a section of the Internal Revenue code. I found myself seized of an awful suspicion that the section would turn out to be the same section granting immunity to mutual company dividends; all the arrangements were going through an insurance company, and I've never heard of anything else carrying that immunity from taxation. In short, as nearly as I could figure it, what was being offered was an opportunity to surrender whole life contracts and buy a plan that was stripped of all flexibility, but that was nothing but a distorted sort of participating contract.

There are some other considerations in the comparison of whole life versus BTID. Foremost of these is the widely available waiver-of-premium rider. Under that rider, which is sold as a matter of course on many whole-life policies, if the insured becomes totally disabled, the company will pay the premium for his policy, following a qualifying period. With NYL, if total disability lasts six months, the company will refund premiums back to the date of onset of, and will continue to pay them for the duration of, the disability. It is a very rare investment that will continue to grow without the owner's ability to invest—and what BTID package contains a waiver of premium on the investment section of the package?

Another consideration that BTID advocates seldom mention is that of distribution. Assuming that a policyholder wishes to take monies accumulated in a whole-life contract, arrange an annuity payback, and so avoid the taxation penalties inherent in lump-sum distribution, such arrangements are usually guaranteed within the whole-life contract. The person liquidating any other form of investment is forced to go to an annuity or insurance company and purchase an annuity at the then-current market price. There is usually a discount on the purchase of an annuity with monies accumulated in a vehicle sold by the annuity vendor, as well as a guaranteed annuity rate in the whole-life contract, should the insured find that, when he goes to arrange his annuity, the market price has become forbidding or unfavorable, in comparison with the guaranteed rate in the whole-life contract.

It is not *impossible* to use term, invest the "extra" money, and wind up with more money than a whole-life contract would yield.

Yet another consideration is the "ease of dollar insertion." The whole-life contract provides for convenient payments of picayune amounts of dollars through an extended investment period. To best the performance of whole-life, the BTID schemes must permit equal ease of investment without significantly increasing the labor involved on the part of the user. If a BTID package means putting in any study of the market, or takes appreciable time to transact on a recurring basis, then the investor's time loss becomes a factor.

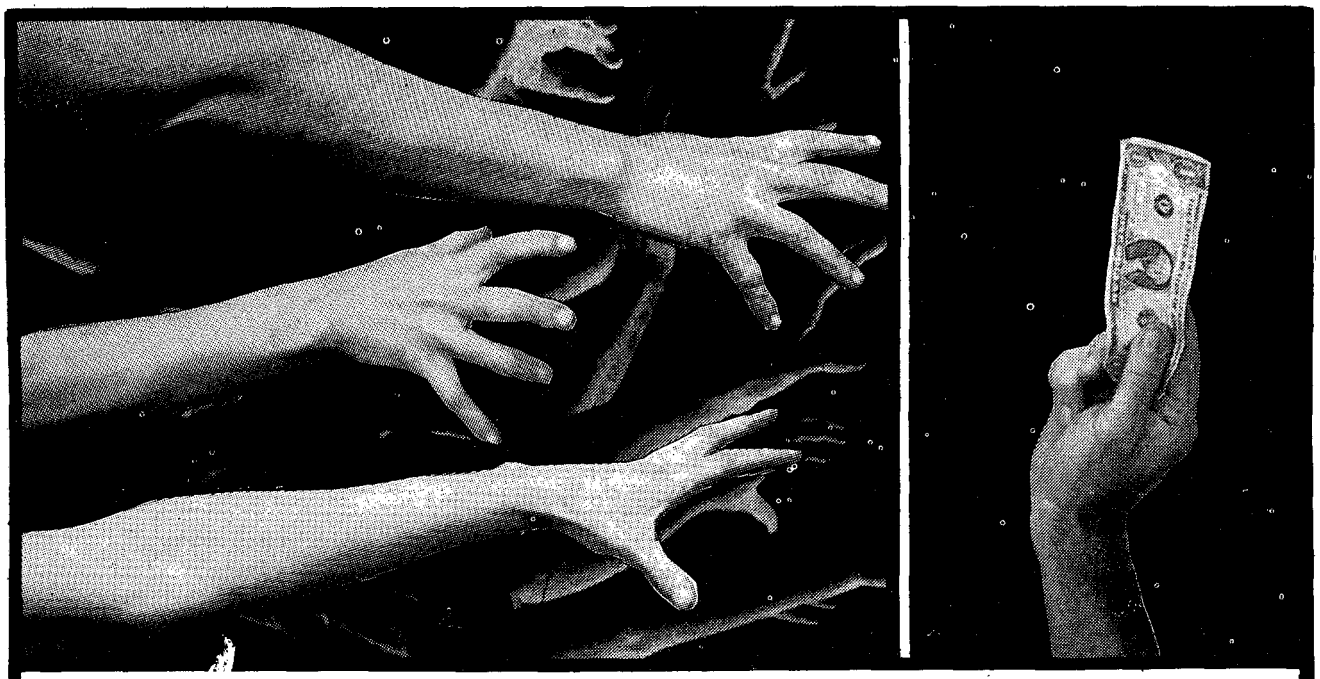
So, if approached with the BTID scam, consider the computations and comparisons made here. May you live happily to cash in your policies! ◧

David Sutton sells life insurance for New York Life Insurance Co. He is also an outdoorsman, farmer, and survival expert.

Coming Next Month:

REASON's July issue leads off with an expose of journalist Tad Szulc's expose of who's firing off rockets in Zaire (formerly known as the Congo). While we're going behind the scenes, Quebecer Pierre Lemieux gives us an insider's view of what's happening in that secession-minded province. And Armando Simon takes a calm look at the Bermuda Triangle and other bits of modern pseudoscience posing as science. From Washington, John Coyne informs us that nationalized medicine's shortcomings are the stuff of which a successful comedy can be made—and has! And Eric Way presents a satirical view of the role of the Federal Reserve. Finally, family man John McClaughry reports on his frustrating search for worthwhile children's books. Also in the July issue: REASON's new column on taxes makes its debut. Alan Reynolds returns with another Viewpoint. And Steve Barone reviews a recent crop of books on sex, psychology, and relationships.

HOW TO DRAW THE LINE ON TAXES



The incessant growth of taxes can be stopped, and here is the only practical way to do so.

by William F. Rickenbacker and Lewis K. Uhler

BEFORE THE DOCTOR CAN treat what ails you, he has to know *what* ails you. The first rule of diagnosis is to look beneath the surface of things. What the patient complains about may have very little to do with the basic cause of his problems. He may say he has a "bad back" because his back "hurts." It could be that his back is fine, but he's wearing the wrong shoes.

The political problem we're diagnosing comes to our attention, first, as a "bad budget" because the patient—the taxpayer—feels a pain in his pocket. He says "taxes" are "too high."

This is true. But, like the aching back, the high taxes are only a *symptom* of the problem. We must look deeper for the causes.

THE BASIC PLAN

The first clue to the puzzle is that the symptom, and therefore the problem, seems to persist, year after year, no matter whether the Democrats or the Republicans are in control of the state legislatures, the governorships, the Congress in Washington, or even the White House. Total governmental spending has been rising faster than our national income—faster, therefore, than our ability to pay for it—for many decades, under Democrats and Republicans alike.

The problem is therefore imbedded in our very *political* system and has nothing to do with partisan politics and cannot be cured through partisan politics.

The basic flaw in our system is this: our political system permits special interests to gain private benefits at the expense of the taxpayers.

How can this be? It comes about because of the lobbying pressures that are exerted upon legislators. A special-interest group knows very well how much it stands to gain from a new law or program in its favor, and it will campaign hard for it—spending time in the legislature's corridors, buying lunches for lawmakers, contributing to their campaign funds, paying for political announcements on television and in the papers, making it seem there's a vast public enthusiasm for the new project.

But where's the opposition? This new project will have to be paid for. Why don't the taxpayers as a group make a similar effort to stop the lawmakers from transferring money from the taxpayer's pockets into the pockets of the special-interest group?

Because the taxpayers as a group can hardly feel it. The $600 million maritime subsidy, for example, costs only a couple of pennies a day for the general taxpayer, all hundred million of us. But, according to the Presidential Budget Report for Fiscal 1978, it means about $15,000 a year to each member of the special-interest maritime groups! So a few thousand members of the maritime trades can actually put a hundred million taxpayers over the barrel and shake the money out of them. Each individual taxpayer thinks that a given program may cost only a few dollars a year, to him personally, and so it's not worth his time or money to fight against it.

Thus, piecemeal, program by program, the special interests gain at the expense of the public interest; and the size of government, of spending, of taxes, grows and grows. The taxpayers

as a group almost never have the chance to vote on the total size of government spending.

To be fair, we must add that even this basic flaw in our system would cause no problem if the taxpayers as a group were solidly opposed to politicians who "go along" with the game. But there are several reasons—some of them rather subtle—why the general mass of voters are not highly sensitive, as yet, to the basic flaw in the system.

FIGHTING INVISIBLES

For one thing, there is a general prejudice in favor of government. "Civics" courses in high school, social science and philosophy courses in college, public-service ads on TV, and even corporate "free enterprise" ads generally teach people that "government" is "at work" for the benefit of "all of us." Government, in general, is seen as a source of good things, all those goods and services that "cannot be provided in any other way." In this general atmosphere of trust in a supposedly benign government, it is hard to persuade people that the general discontent of taxpayers is caused by a fundamental flaw in the political system they have been taught to revere. It's like a doctor telling a man he's got a fatal illness and won't last much longer, and the man refuses to believe it, saying, "I've always thought of myself as a very healthy person."

Then again, there is the problem of actually seeing what is happening. In any governmental program that involves taking a little bit of money from each taxpayer and giving a large benefit to a small group, the "benefits" are *highly visible*, and who is to argue against them? But the real costs remain *real* even if they're *invisible,* and it's not easy to fight against the invisible, it it?

This problem of the visible benefit and the invisible cost is typical of almost every government program. A high tariff on shoes gives work to the shoe industry, and you can calculate very nicely how many workers are "protected" and how much they earn. But all those citizens who want a new pair of shoes have to pay a higher price than otherwise, and how can you calculate the cost to them? Or how can you reckon the real cost that is borne when a citizen realizes he can't afford new shoes and decides to do without? Or the cost to the workers who might have been employed in exporting goods to the foreigners who would have sold shoes to us?

And if you cannot calculate the costs that go along with the supposed benefits, how can you decide whether the program is *efficient?* There is no agreed way to measure the efficiency of governmental programs. This is the structural reason why they are inherently wasteful. But that is a different, though fascinating, subject. It explains why governmental programs are expensive. It has nothing to do with the basic flaw, the political loophole that permits the programs to get started in the first place.

Another hotbed of invisible costs is inflation. An unexpected dosage of monetary inflation (increase of the money supply) may sometimes provide a temporary boost to some sectors of the economy. But it will certainly reduce the buying power of the dollar. Inflation always means *an invisible reduction in the real value* of people's dollar-wealth, whether in savings accounts, bonds, cash accounts, or fixed-amount programs such as life insurance and many pension plans.

The basic flaw in our political system is that it permits special interests to gain private benefits at taxpayers' expense.

The tax law creates another kind of cost arising from inflation. This one is indirect but at least partially visible (and that's why something may be done about it). If all incomes and costs doubled overnight, it would seem that we'd all be in the same position as before. But that's not true. The new higher incomes would be subject to higher tax rates (under present law). Inflation—assigning a larger number of dollars to the same goods—leads to higher average tax rates on the income-producing people in general. In the early 1960's only about three percent of all federal income tax returns were subject to marginal tax rates of 30 percent; in the mid-1970's about one-third of all federal income tax returns were in those higher brackets.

GOVERNMENT A BARGAIN?

Because the costs of government services are invisible, indirect, and unmeasurable, there is a general idea that government services are "cheap." Not long ago an opinion survey of voters showed that the average voter has no idea of the real amount he pays for government programs. Consistently, the survey respondents underestimated such costs to themselves by as much as one-third to one-half.

Because of this general misconception, new governmental programs haven't run into any consistent public opposition. As mentioned earlier, the average taxpayer pays only *a few pennies a day* for the average "special interest" programs and has *little immediate incentive* to fight against it. On top of that, as we now see, there is the false general idea that "government is working for us" and the demonstrably false idea that government programs are "cheap." Who would argue against programs that are thought to be good, especially when they're thought to be cheap?

This is why some lawmakers can say, sincerely, that though they disagree with various programs they vote for them because of the "great popular demand" for such governmental goods and services. This is sincere—and true—as far as it goes. Of course the demand will be huge if the program is thought to be both beneficent and cheap. But the error here is that the "demand" is based on a *false* price, or a false *idea* of the price. The demand will be greater if the people are deluded into *believing* that the price is cheap.

Because of this deluded demand, politicians find that they can make more "points" by voting for a new spending proposal than against it. Because of the general misconception that the price is cheap, the man who votes against the program is accused of "putting the almighty dollar above humanitarian concerns." He is made to look like a tightwad, a flinty-eyed monster, a cruel and heartless curmudgeon, and so on.

In all fairness we must add that the average lawmaker is a quite intelligent person who can follow this line of reasoning just as easily as you can. The trouble is that the *lawmakers* as a group, whether Democrat or Republican, are *powerless to correct the basic flaw.* Furthermore, the politicians as a group have no interest in correcting

the basic flaw, because they have learned how to prosper with it. They gain political advantage by voting for economic programs with obvious benefits and hidden costs. Being human, they see quite logically that their own political careers can rest very comfortably on this flawed system. They have no immediate incentive to change it.

This structural flaw—the lack of any limit on government's power to tax and spend—has led to enormous increases in the size of government. In state after state the growth of government has far exceeded the growth of the nation's economy, or even the growth of that state's economy.

The point is now being reached when this process must be stopped—while we still have the political power to stop it.

TOTAL REFORM

There have been attempts to control the size of government by reducing expenditures on a program-by-program basis. These have always failed because of the illusion that each separate program is cheap.

But, while the average taxpayer may think a certain program is cheap, he never thinks government as-a-whole is cheap! Do you know anyone who thinks taxes, in general, are a bargain? Do you know anyone who thinks he's really getting his money's worth for the taxes he pays?

Therefore, the corrective action must take place on the level of government as a whole. We must control and restrict the total size and cost of government at all levels.

Because taxes are a great burden, there have always been movements for "tax reform." But these efforts have never been directed toward controlling the total size and cost of government; rather, they have been attempts to shift the burden from one set of productive citizens to another set of productive citizens. The prolonged fight among the producers has led to 14,000 pages of tax statutes and 40,000 pages of IRS regulations—while the total burden has kept right on growing. The situation has deteriorated into one of warfare amongst the productive citizens—a general social conflict that is the opposite of good government, which should aim to harmonize the interests of the productive members of society.

Many taxpayers who are pained by the total burden of taxes may think that they benefit, nevertheless, from some particular program that affects themselves. But this feeling is only the result of the illusion that each program is cheap. The total cost of government is high and rising, and no one thinks the total cost is low. It is here, on the level of the total cost, that the feelings of the great majority of the taxpayers are harmonized. This is where the growing movement for constitutional tax limitation finds its majorities and its potential for victory at the polls.

TAXING PRODUCTIVITY

In addition to creating general social conflict, the present level of government spending *reduces the total efficiency and therefore the total income of the economy* (see, e.g., Martin Feldstein's study, "Social Security, Induced Retirement and Aggregate Capital Accumulation," *Journal of Political Economy,* 1974). It reduces the pool of talent that's willing to go to work. It kills the drive to work hard. The tax law becomes so important that it becomes the controlling factor in many of our most important financial decisions. When government tax regulations become the controlling factor in our decisions, what has happened to freedom?

When government tax regulations become the controlling factor in our decisions, what has happened to freedom?

No wonder there has been a great growth in taxpayer protest movements in recent years!

The most fundamental and disturbing result of all this is that the productive citizens become discouraged and suspicious. Each program seems a bargain, but all the "bargains" put together are a burden! The producers feel robbed. They feel that they are in conflict with their fellow producers. They feel despair, and out of despair is born a mood of revolt.

Some people may ask if there is really a serious problem. Won't it solve itself at some point, the way most problems do? And if it doesn't, what's the danger after all?

The danger is that there's no *law on the books to stop government from taking* 100 percent *of your income. They can take it all, and as things now stand it would be perfectly "legal."*

ENOUGH IS ENOUGH

This may sound like an alarmist's threat, but a little bit of thinking will prove that it's painfully real. Back in 1913 when the Constitution was amended (the 16th Amendment) to permit a federal income tax (there had been a short-lived one during the Civil War), the tax rate was one percent—and people cried out that this was confiscation! Tax rates now go as high as 70 percent, and the people tolerate this burden.

Actually, there have been moments of cheer. The top tax rates rose to 91 percent, during the Second World War and afterward, until President Kennedy wisely reduced them and thereby released a tremendous productive surge in the economy. But the top tax rate is still 70 percent. As a people, we are right now permitting a high degree of confiscation—permitting it, against our will, because we have not discovered a political means of defeating it.

Granted, this is the top tax rate on the top *bracket* of income. The total tax take from all kinds of taxes—state, local, and federal—is about 42 percent of our income. We are approaching the point where the problem will become irreversible. As a widely circulated study made by the Ford Motor Company shows, there are already more people dependent on government than there are productive workers paying taxes to government!

In 1974, Roy Ash, federal Budget Director at the time, calculated that government spending at all levels was 44 percent of personal income (35 percent of Gross National Product). He estimated that by the year 2000, combined federal-state-local budget outlays would account for 80 percent of personal income (two-thirds of GNP).

There is no law against the majority voting to strip the producers of 100 percent of their income!

This has actually been approached in England, where some 60 percent of the total personal income is taxed away. The top bracket in England pays a tax rate of 98 percent. There is a direct tax on capital. "Death duties" take just about everything away from

the surviving family. The result of this war against productivity in England has been, of course, stagnation in production, great social and political upheavals, departure of productive and energetic citizens, and a general feeling of ugliness, envy, and whining. And yet there was a time when England was productive and energetic, when the people were permitted to hang onto their wages. England moved into its present situation gradually, and we are now where England was in about 1965.

So don't say it cannot happen. It has already come close to happening in the country that is most like us in social and political traditions. It is happening there by reason of the same basic flaw that we see in our own system. And here, as there, we taxpayers have no protection—as yet—against 100 percent confiscation. The normal political mode is useless: this candidate or that, this party or that, won't correct the basic flaw. A recent survey shows that 82 percent of the English people wish taxes were lower—82 percent!—and yet they keep voting for governments that only increase their burdens!

If we do nothing, we shall inevitably have nothing.

NEEDED: A PLAN OF ACTION

Granted, the lion's share of taxes and expenditures occur at the federal level, although in recent years the total expenditures by state and local governments have been rising faster than the total federal expenditures. Still, you may wonder why you shouldn't attack the problem, first, at the federal level. The reason is that the problem must be solved through constitutional amendment, and amendments to the federal Constitution are most easily brought about by action that starts at the state level.

Why must the problem be solved by amending the federal and state constitutions? Because every other method is either impossible or undesirable.

Consider all the possible channels of political action:

- Judicial—the courts
- Executive—the governors, the president
- Legislative—the state legislatures, the US Congress
- Revolutionary—mass violence
- Constitutional—a change in the basic law

Let's look at these one by one.

The judicial approach would require a court case. If you're lucky, you'll be permitted to appeal all the way to the state supreme court or the US Supreme Court. But, even if the highest court hands down a ruling that's favorable to the idea of limiting the government's power to tax, this would be inadequate, undesirable, and uncertain: inadequate because a limitation must be worded very precisely; undesirable because the judicial branch should not, and by its own decisions cannot, engage in writing new tax laws; uncertain because what one court can affirm the next court can deny. Besides, the Supreme Court has already ruled unmistakably in support of the present taxing principles and has, furthermore, ruled that the judiciary "can place no restraint upon this power."

There is a further, practical, objection to judicial action even if it were appropriate: it is slow, and we are running out of time. Remember: the number of people dependent on government is already greater than the number of people gainfully employed in the private sector.

People in every walk of life are in favor of controlling government spending and taxation.

The executive approach is too uncertain. It simply involves electing a president (or governor) who promises to use his powers of persuasion on Congress (or the state legislature) to rewrite the tax laws. You might be successful in putting your man in the governor's mansion or the White House, but will he actually carry out his promise? Almost every candidate for governor or president in the last 40 years has promised to balance the budget and stick to sound principles of finance. and what has happened?

If your man does try to influence the legislature, will he succeed? If he does get the legislature to act, will it really write the kind of law you had in mind to start with? If the legislature does write a new tax law, what's to stop the legislators from changing it in the next session? (The tax laws have been rewritten and expanded so often that they are now beyond comprehension.) If your man is defeated in the next election, or dies in office, is there any certainty that the tax reform will survive?

Finally, and most importantly, it's impossible to work for an individual candidate for governor or president without choosing sides in the partisan politican scramble. The idea of constitutional limitation on taxing and spending is genuinely nonpartisan; the idea gets its strength from the fact that a majority of Democrats and a majority of Republicans are in favor of it. If a nonpartisan campaign succeeds in writing a tax-limiting clause into the basic Constitution, that clause will have a very fine chance of remaining the basic law of the state or the nation for one whale of a long time to come.

NEITHER LAWS NOR BOMBS

The legislative approach doesn't promise much, either. For one thing, we have already discussed the basic flaw in our system, the flaw that permits irresistible pressure to be brought to bear on legislators to vote *for* new spending programs. It is illogical to suppose that legislators who, as a group, vote *for* new spending every time they have a chance, will vote *against* new spending as a constitutional principle. The same pressure groups that urge the legislators to vote for spending in the first place will keep them from controlling the total spending in the second place.

Also, it is a very sound constitutional doctrine that one session of a legislature may not bind the hands of the next session. So, even if you could get one session to write a law to limit its taxing power, the next session would have full power to repeal that law.

The problem is too serious for us to rest content with temporary, capricious, or superficial relief. The cure must be basic and long-lasting. To some minds, there may be an apparent contradiction in urging action through constitutional amendment while arguing that the various legislatures are incapable of limiting their taxing power: the contradiction arising because in many states the only way to get an amendment proposal on the ballot is to have the *legislature* vote to place it on the ballot. Legislators can, and do, get around this problem by the usual bit of fancy footwork, saying, "I didn't vote for or against the proposal as such, I only voted that the people have a right to express their opinion on it."

That is, in fact, a respectable position to take. Indeed, as will be pointed out below, most legislators would *secretly* like to have a constitutional amendment to limit the spending and taxing powers of government. They are, as a group, just as patriotic as the rest of us; and they are in high income brackets, and they pay taxes too!

The *revolutionary* approach isn't in the cards. True, this wonderful country got its start with an act of violence, in the Boston Tea Party of 1773, but that was hardly an attempt to overthrow the domestic American political arrangements. It was an attempt to confirm the home government's taxing powers. Shays's Rebellion and the Whiskey Rebellion were local—though potent and successful—protests. During our own War of Independence, the portion of our people who remained loyal to the Crown and fled to Canada or the Bahamas or elsewhere was five times the proportion of the French royalists who fled from France during the French Revolution. We are not revolution-loving people. Besides, when we have a legal and constitutional way to correct the problem, it is our *duty* as citizens to exhaust all legal avenues before even thinking of such romanticized notions as a full-fledged tax rebellion.

OUR ONLY HOPE

This leaves only the *constitutional* approach, in which we strive to adopt a tax-limiting amendment in each state constitution and eventually in the US Constitution. Since this is the only remaining choice, we can now see why Milton Friedman calls it "our only hope." It is in fact the only avenue remaining to us, short of outright revolution.

But, just because all other choices have been rejected, we haven't proven that the one remaining choice will work. It may be that, upon examining this last choice, we shall find that it too is inadequate or unsuitable. In that case the situation would be hopeless, or at best, agonizing: for the choice then would be between tyranny and revolution.

Well, how can we tell whether constitutional tax limitation is a practical proposal? Since this method requires very broad public support, it is easy enough to find out whether it will work: find out if the people are in favor of it. The news is good. *People in every walk of life are in favor of some kind of control over government spending and taxation.*

Whether you divide the population according to income groups or educational level or blue-collar or white-collar job or color of skin or age, you find only a small fraction—running about 25 percent—flatly opposed to tax limitation. In almost every category you find an actual majority in favor.

If this is so, they why did the tax-limiting proposal fail, for example, in Michigan, in 1976? The short answer is that the media blitz against the proposal convinced many fed-up taxpayers that the proposal would, somehow, *increase* taxes. When confused, people vote No. The voters were easily confused because (1) those who said they favored the tax-limiting proposal didn't hold their beliefs with the unshakable conviction the comes from a thorough understanding of the problem (the basic flaw) and the details of the proposed solution, and (2) those who had "no opinion" fell easy victims to the distorted and passionate appeals of the opposition in a saturation propaganda-blitz in the last seven days of the campaign.

The tax-limiting campaign failed to get its message to the people. It failed for the simplest of reasons: not enough money (the opposition spent about 10 times as much). That failure of money, however, does not alter the historical fact that a *majority* of the people, in almost *every* category of age, education, income, color or job, are *in favor of* constitutional tax limitation once they know what it's all about.

So the potential popular support is there. It's real, it's strong, and it needs only to be informed and encouraged.

This alone would be enough to persuade a prudent man that the idea is filled with hope. But there is more. The average legislator is just as intelligent as the rest of us and just as patriotic. The average legislator understands what's wrong but doesn't know what to do about it. The legislators, themselves, would be just as happy if the flaw were corrected, but they admit they're not the ones to correct it.

The reasoning runs this way. When a special-interest group puts pressure on a legislator, thanks to the basic flaw that gives that group an undue influence, the legislator is faced with two choices: spend more money or look like a heartless skinflint and eventually be thrown out of office. You can't expect men to be saints. They'll crumble under pressure.

But the point is that they don't *enjoy* crumbling. It saps their self-respect. They would much prefer to be able to resist the special pressure without jeopardizing their careers and without taking responsibility for their actions. They would like to be able to say: "I understand your humane goals, and I do see that your proposed new program may do some real good. But it would take the budget beyond the limit imposed under the formulas written into the Constitution, and my hands are tied. If *you*, however will show me where we should cut the budget in some other program, I'll be happy to take the entire package to the floor and present it to my colleagues."

And now the legislator is happy. He can appear to be sympathetic, while running an orderly financial ship. And the business of who gets what is decided, as it should be, by the political process, while the taxpayers as a group have delivered the major decision as to how much of their wealth is to be spent by the political process.

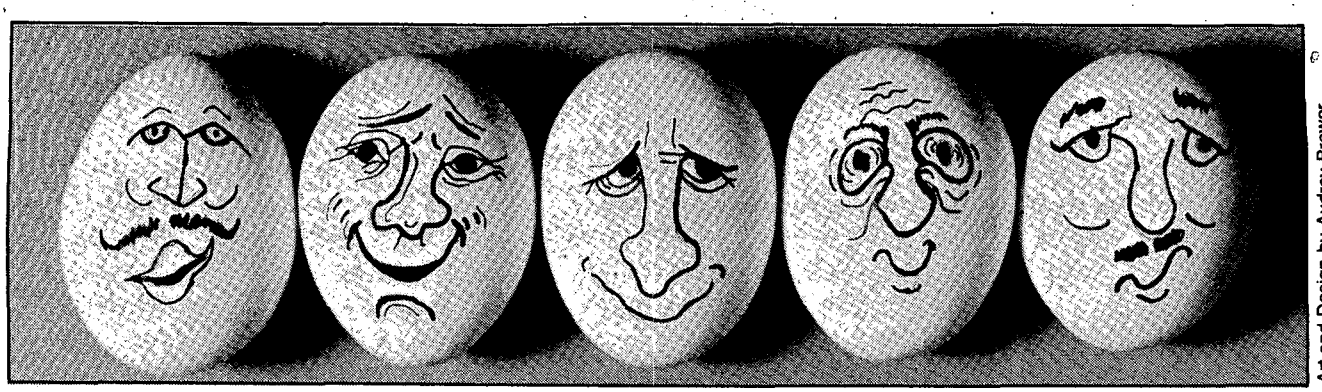
It is right for the political process to decide the priorities of political spending programs. It is wrong for the political process to get to the point where one group of people enjoy the power to take an unlimited share of the others' income. It is right for the taxpayers as a group to decide where the line shall be drawn.

The *constitutional* approach, therefore, holds out a strong promise of success. It rests on broad popular support, and that support is known to exist: a majority of the people are in favor of limiting taxes and spending. It requires strong support among legislators, and that support can be shown to exist, among legislators of both political parties.

The idea of constitutional tax limitation is truly *an idea whose time has come.*

All it needs, for success at the polls, is careful drafting of the amendments and professional campaigning to put them over the top. R

Mr. Rickenbacker is an author and economic consultant; Mr. Uhler, an attorney, businessman, and consultant. They are respectively, the chairman and president of the National Tax-Limitation Committee. This article is adapted from chapters one and two of their "Taxpayer's Guide to Survival."



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Picking the Right Tax Advisor

What you want is a champion, one who will push the IRS to the full extent of the law.

by Timothy Condon

MOST OF US TEND to forget the original meaning of "champion." A champion originally was one who fought for the greater welfare or glory of another—thus, someone who "champions" a cause. In the days of chivalry and mail-clad knights, at the tournaments the jousters would fight to be their lady's *champion.*

In the same sense, the tax man today—whether he (or she) be accountant, lawyer, or tax practitioner—champions the cause of the put-upon taxpayer. The IRS and its functionaries are less than interested in seeing justice done for the average taxpayer. The tax man does a little to set the imbalance straight, and he is even more the "champion" because of the forces arrayed against him and the taxpayer. How should you go about choosing such a champion, should you want or need one?

Of course, popular myth has it that the tax expert is only for the "big guys," the people with the money to pay such experts to uncover and defend big-money loopholes. Only the ubiquitous chains such as H. & R. Block are for us middle-class taxpayers, the myth has it.

Well, nothing could be farther from the truth. It so happens that many of the best tax experts do most of their business with the middle-income groups, and quite a bit with poor people (even welfare recipients!) who are being attacked by the IRS. All you need to do is seek them out ("Let your fingers do the walking," as the jingle says).

Why pay a tax man at all? you may first ask. It is true that there are books designed to enable the middle-income taxpayer to do his or her own return, but there are a number of different reasons you may still need the help of a tax man.

Maybe you have a special situation that only an expert can figure out. Or you've come to a part of the tax law that you think will save you money, but you just can't figure it out. Or you're being harrassed by the IRS to pay more taxes you know you don't owe, but the auditors won't listen to you. Or you're being audited and are terrified of being victimized.

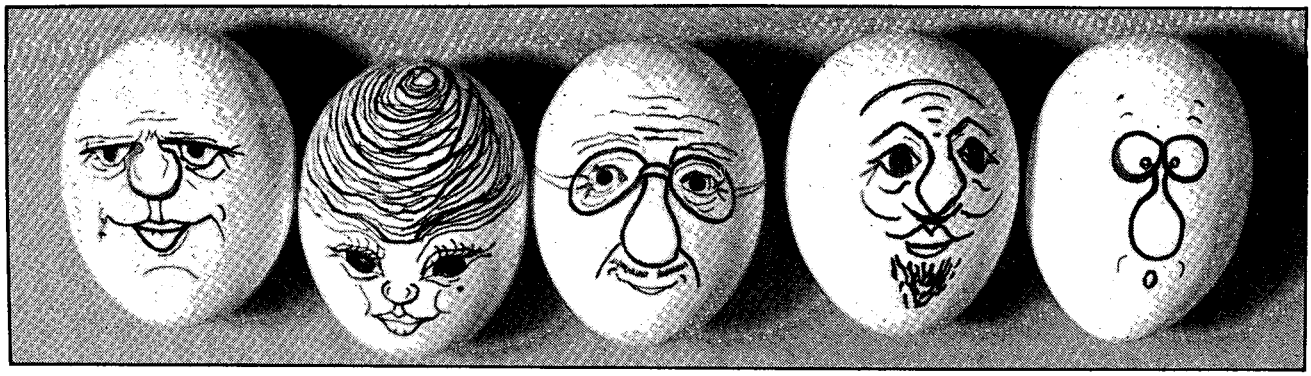
All of these situations can and do come up. There's no shame if you find yourself "under the gun" in one of these (or another) ways. The thing to do, once you realize you're not figuring out the system, or it's out to get you, is to start making moves to find that "champion"—someone who spends all his or her time doing these kinds of things and who is an expert in getting things done in favor of the taxpayer.

Besides, let's face it: the income tax system in America is so big and so complex that even the experts don't know everything about it. How can they expect us common taxpayers to understand the gigantic mess? We can't. And if you've recently come into some money, or you suspect you're in a situation where you might be able to save some *real* money, or even if you just want to *find out* if you can do things to save more money... then you'll want to consult a tax man.

There's still another benefit too. When you have an expert tax champion handling your tax returns and any problems that come up, you have *peace of mind*, which is worth quite a lot to many of us.

The most important thing to remember, when you're thinking of whether to consult a tax expert or not, is that you must talk to him *before* you do something, not after. And you must consult him *before* any all-important time limits have passed by, not after. This is probably the biggest complaint tax practitioners have about clients and potential clients: the embattled taxpayer often waits until it's too late to do anything before consulting the tax man, when the whole problem might have been solved easily if the consultation had taken place earier.

A word to the smart taxpayer should be sufficient. If you've moved into uncharted financial waters; if you're about to go into business; if you've recently received a chunk of money and are contemplating what to do with it; if you're buying or selling real estate (including a house); if the IRS is breathing down your neck or it looks like they might be soon—go find a tax man. Now! Remember, you don't have to hire a tax expert only to do your tax returns: you might want to consult him only about a specific financial problem or question, which is fine. Whether he does your entire return and tax situation all year long or just talks to you about a specific question, chances are he can move toward solving whatever the ques-



tion is that's bothering you.

Say you've now decided to pick a tax expert to help you with your income tax or a specific problem. How do you actually go about it? Do you want to talk to an accountant or a tax lawyer or a tax practitioner? How much will it cost? Where do you find them?

The first two things to do are easy. Talk to your friends and acquaintances about who does *their* tax problems. There's no quicker way to find out about a very *good* tax man or a very *bad* tax man than by talking to people who have dealt with them. If you find that a friend or two has someone to recommend, put the person down on your list and interview him or her. The second thing you can do is look in the yellow pages of your telephone directory. You can usually find tax experts listed under a heading like "tax return preparation" or "income tax preparation." Just look around until you find the right place.

Sometimes you'll see a broad heading like "income tax" that tells you to see the headings "accountants, attorneys, bookkeeping services, tax return preparation." You'll want the one that says "preparation" in it. This is because *some* accountants do tax returns and are experts, *some* lawyers do tax work, and *some* bookkeeping services also operate tax return preparation services—but the real pros are the ones who work full-time only in the tax area, that is, the tax preparers. Some states allow lawyers to advertise the specialities—including taxation—in the yellow pages. Most do not, however, so it's usually hard to pick out a tax specialist lawyer. But no matter. Because law is such a tight monopoly, you'll find that lawyers are particularly expensive anyway. On the other hand, some tax preparation experts actually *are* lawyers: they just don't advertise themselves as such because of bar association rules.

So get that list, whether from recommendations of friends or from the yellow pages or both. Look in the yellow pages for individuals and small firms offering an income tax preparation specialty. Don't bother with the big chains if you want to take any aggressive stance toward the IRS and the tax laws in general. Look for the expert and dynamic individual or small firm to do the work. They'll be the ones who are "lean and hungry" and willing to push the IRS to the fullest extent under the law, and that can only be to your benefit.

Once you have a list of tax practitioners in whom you're interested, your next step is to talk with them. Call each one up and tell him straightforwardly that you're looking for a tax preparer/advisor and would like to interview him. Don't be shy about this—you have a right and a duty to yourself to find out the experience and attitudes of the person who will be handling your tax finances. If one tells you he doesn't have the time or doesn't talk without a fee, simply write him off the list. They need *your* business, not the other way around.

The most important thing to remember is that you must talk to a tax expert *before* you do something, not after.

When you have interviews lined up with several of your prospective tax preparers, write out a list of questions you're going to ask them. Take it right into the interview with you and ask the list of questions right down the line, making notes as you go along. What kind of questions might you want to ask? Here are some examples:

How much experience have you had? Specifically, how many years have you been in the business, and how many returns, roughly, have you handled?

What is the range of your services? Do you specialize only in federal income tax preparation, or do you also handle state income taxes, financial planning, audits, appeals, etc? (The more versatile a tax man is, the better it is for you—all those services in just one person!)

What is your educational background? Are you an accountant? A Certified Public Accountant? A lawyer? (This area isn't really that important—some of the truly great income tax specialists who have been in the business for decades have spent their lives doing only that: *tax*.)

What is your attitude toward government in general and the IRS *in particular?* (This is a crucial question. The great tax specialists are fighters and aren't afraid to proclaim it. If you get a weak, waffling answer, or similar nonsense, cross that one off the list. You want someone to aggressively *champion* your cause, not someone working for the government on a free-lance basis.)

Are you admitted to practice before the IRS*? Do you handle audits and appeals for tax returns you prepare?* (These two questions should be asked together. Anyone can be admitted to "practice before the IRS"—all it means is that the person has been formally recognized by the IRS to represent taxpayers. And the preparers don't have to be accountants or lawyers, either. On the other hand, the IRS will use this device to try and drive the aggressive tax practitioners out of business—by denying them the right to formally represent clients. The result is that some of the best tax specialists *do* handle audits and appeals even though they aren't formally admitted to appear before the IRS. What happens is that they simply accompany the taxpayer through the whole process, telling their client what to say, when to say it, and how to say it. This burns the bureaucrats up but makes for aggressive tax savings.)

What is your range of fees? What can I expect for my situation? Do you charge only one fee for the whole year, or do you charge extra for handling audits and representing me in tax appeals? (Don't take a noncommital answer on the fees. Although it *is* difficult for a tax man to say exactly how much your particular situation might cost, he or she generally *can* come up with a pretty fair ballpark estimate. You will also find that the better tax specialists will charge you one fee—possibly a high one too—at the beginning of

the year when he or she does your tax return. Then for the rest of the year you may call or write for help on any tax problem you might have without further charge. This also includes handling audits and tax appeals. Other tax people may prefer to charge a lower rate at the beginning of the year, then charge you according to how much more work your particular situation demands. The first way is handier because you know you have your own expert champion ready to come to your aid all year long—at no further expense to you. That's like buying good insurance; you won't have to pay any more no matter how bad your situation gets. And your tax man will almost invariably give you good service because he wants your business next year.)

Lastly, take a look at the overall situation and personality of the tax practitioner you're interviewing. If he or she strikes you as soft on the fight against rising taxes or scared of the government, you'd best cross the name off your list. This is because tax men have to be fighters: all the forms of intimidation and harrassment the government utilizes are not reserved for the taxpayer only; such harrassment is also directed against tax preparers themselves. They must be able to withstand such pressures in order to fully serve—and, more importantly, *protect*—your interests.

A good fighter will come right out and tell you that he thinks every taxpayer should take each and every deduction allowable *under the law* (which may not always be the same thing as what the IRS *says* is allowable) and that he or she will fight to do just that.

How far will such champions go? One example is the tax expert Oscar Klee, in northern California. In the business for more than 25 years (he is neither a laywer nor an accountant), Klee has run for Congress two times, battled agents trying to illegally seize the financial records of his clients and fought year after year to establish new deductions under the law that the IRS refused to recognize. When Klee refused on constitutional grounds to reveal certain information on his *own* tax returns, numerous court battles were fought. Finally, the government managed to get a conviction: they put Klee, a one-legged man who walks on crutches, into a California *medium security* prison for dangerous felons in December, the beginning of the tax season. They let him out in May, the end of the tax season. But they couldn't stop him: during his months in jail he continued to do tax returns in the prison visiting rooms on weekends. He continues to operate his tax preparation business in northern California.

This is the kind of individual who can best defend your interests: a person who has expertise and experience, is tested in battle with the IRS bureaucracy, willing to champion your cause to the very end of every legal remedy under the law—and, most importantly, someone who is *honest*, who will not fabricate deductions or exemptions. If you can find such an individual to handle your taxes, hold on to him. He's just as valuable as having a good lawyer at your call. He'll save you money. ◧

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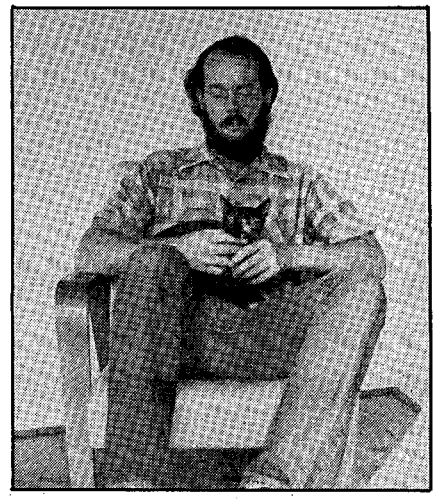

Timothy Condon is a lawyer and a coauthor of the 1978 Income Tax Guide, *from which this article is drawn.*

Stahl

(*Continued from p. 41.*)

duction, it should be remembered that only those deposits are mined for which production is economically justifiable at current prices. But once the price of silver is firmly established in the $6-$8 range, the costlier mining of low-grade silver deposits will be considered. The sooner the price of silver exceeds $6 and stabilizes in that range, the sooner we can expect capital investments for the purpose of mining low-grade silver deposits. But there is a four-to-seven year lag between the time a project is started and the time actual mining operations can begin, so that one can already visualize now that in the early 1980's there will be a period of actual shortage of silver—Indian exports will have ceased and the new mines will not yet be in production.

So where will this bring the price of silver? There are, of course, many predictions of how high the price of silver will go. Perhaps the most reliable is that of the World Bank, an affiliate of the International Monetary Fund, based in Washington, which expects the price of silver to be $9.35 by 1980 and $16 by 1985. The reason this forecast can be believed is that the World Bank is neither a producer of silver nor a user, nor does it have any hoard of silver; one can therefore assume that its opinion is unbiased. As for shorter-term price predictions, it is safe to say that during 1978 we will again see silver around $6 per ounce, with gradually higher prices until the World Bank's prediction is reached.

But—the silver market is very volatile; so if one intends to enter this market, one must have enough means to survive the daily ups and downs. In other words, managing your margin will be your most important business, and your results will be much better if you try, not to play it smart, but to play it rich—which means that whatever your capital available for speculation, you should use only part of it on any one trade and not trade anything else until the first trade is completed. Also, probably the best signal that the customer of a brokerage house can obtain is a margin call. If you get a margin call, that means that you are on the wrong side of the market, and you'd do better to get out of the market temporarily and try again at a later date.

It is doubtful that Congress will approve of selling the silver from the national stockpile.

As to the liquidity of the silver market, it is extraordinary. Silver is traded on several exchanges in the United States, on the London Metal Exchange, and in the London bullion market. For several years it has been the most active or second most active commodity in the world. In 1976, in the United States alone, the total value of silver contracts traded amounted to $123.9 billion. During the first 10 months of 1977, the volume of silver contracts traded on the CBT exceeded 1.6 million, and on Comex it was almost 2.8 million—a record for both exchanges. The high liquidity of this market is an aid for individual investors, because anybody can enter the market or get out of it without as much as an additional ripple in the normal pattern of trading.

All this, of course, is of interest only to those inclined to trade silver in the futures market. Those who buy silver outright and hold bullion for a number of years should reap substantial profits irrespective of temporary fluctuations. In either case, the near future promises to be a superinvestment era for silver. ◧

For Extra Profit Potential . . .

Pick a Tax-Favored Business

by Vernon K. Jacobs

MOST TAX INFORmation is essentially defensive. It deals with how to *save* taxes, *avoid* penalties, or *defend* deductions. Rarely discussed in tax literature is how to profit from taxes. Which businesses offer extra profits because of the tax laws? Which businesses are tax favored? Here is a list (with a brief non-technical explanation) of nine tax-favored businesses.

Real Estate. The tax laws treat nearly every kind of real estate business or investment with great tenderness. Whether you buy, fix, and trade your not limited to independent in multimillion-dollar developments, the tax laws will help you to prosper.

Oil and Gas Production. How would you like to have a business where you can claim a tax deduction equal to 22 percent of your gross sales up to a maximum of half your net profits? In essence, this is what the law permits for qualified producers of oil and gas, until 1980. After 1980 the rate gradually drops to 15 percent. This depletion deduction is not limited to independant producers and royalty owners.

Mining Operations. Varying rates of percentage depletion ranging from 5 percent to 22 percent of sales are permitted for a broad group of mining or extractive types of businesses. As with oil and gas, the depletion is limited to half of your taxable profits, which is still very nice. Numerous minerals ranging from aluminum to zinc qualify for the 22 percent rate. The 15 percent rate applies to gold, silver, copper, and iron ore, while the 5 percent (minimum) rate applies to such things as gravel, sand, clay, and plain old stone. And don't scoff at a 5 percent depletion deduction. It could still cut your taxes in half if your taxable profit is only 10 percent of your sales.

Timber Growing and Cutting. Almost unscathed by the 1976 Tax Reform Act, timber growing offers a confusing array of tax advantages, including (1) depletion based on cost rather than sales, (2) deduction of expenses against other income, and (3) selling your product at tax-favored capital gain rates. Generally, the tax advantages of timber also apply to growers of Christmas trees.

Farming. Farming, like real estate, has a long history of being favored by the tax laws. While the 1976 Tax Reform Act eliminated some of the really esoteric tax shelters related to farming, the professional farmer still enjoys many obvious and many subtle tax benefits. It's confusing, but it's worth studying if you enjoy the country life.

Home Businesses. While the tax law recently clamped down on office-in-home deductions by employees, it did little to hurt the business that is operated from your home. While the tax advantages of a home business aren't quite as attractive as for farming, the home business does enjoy a few advantages over the business that is conducted from a store or office.

Mail order. Essentially, the mail order business permits a successful operator to reinvest his profits without paying income taxes until his growth starts to level off. There is also a small possibility of converting ordinary income into capital gains, but this is a tricky maneuver, with only moderate odds of being successful.

Publishing Periodicals. Selling subscriptions to a magazine, newsletter, or newspaper offers an opportunity to deduct as a current expense the cost of getting new subscribers while simultaneously deferring taxes on your subscription receipts until they have been earned.

Nonprofit Ventures. From a tax point of view, what better business could you have than one that doesn't have to pay income taxes at all? Many types of "businesses" are organized as (a) clubs, (b) business trade associations, or (c) public charities. While there are some rules you have to satisfy, a nonprofit venture can sell memberships or fellowships without paying a tax, can receive contributions from supporters, etc. For example, assume you have an idea for a way to prevent the theft of bicycles. Instead of organizing as a regular business, you might organize as a nonprofit organization performing a public service. How would you benefit? Just pay yourself a salary.

We have just brushed the surface of these nine tax-favored businesses. Each one tends to be something of a speciality with its own tricks of the trade. We don't recommend jumping into any of these businesses without careful investigation and extensive discussion with experienced tax advisors. Nonetheless, these are businesses that offer an extra bonus in the form of tax breaks. If you have ever wondered how people can still get rich, the answer is that most of them are in one or more of these nine businesses.

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Rabushka

(Continued from p. 37.)

population between 1971 and 1974. Just over 100 enterprises achieved US $174 million in exports in 1975.

Nor has the Philippines let its neighbors go without competition. The Bataan Export Processing Zone (BEPZ) was established in 1969 with a total area of 1,598 hectares to encourage industrial investment. Firms located in the BEPZ are exempt from municipal, provincial, and export taxes and benefit from accelerated depreciation rates on fixed assets as well as tax-free and duty-free importation of machinery, equipment, raw materials, and supplies. Operating losses incurred in the first five years of operations can be carried over as deductions from taxable income during the succeeding five years. Again, red tape is minimized in the zone.

Malaysia, too, has created a number of free-trade zones. Beginning with the establishment in 1972 of the Bayan Lepas Free Trade Zone, Malaysia has announced the formation of nine distinct free-trade zone areas in the provinces of Penang, Selangor, and Malacca. This decision to set up so many free zones in Malaysia doubtless reflects the success of the zones in Taiwan, Korea, and the Philippines. In the struggle to compete for foreign investment, the free-trade zone is fast becoming a crucial element of economic policy.

Nations outside Asia have also noticed the success of Taiwan's EPZs and its rivals in Korea, the Philippines and Malaysia. Liberia recently completed a feasibility study for the establishment of an industrial free zone to encourage duty-free privileges and tax holidays for export-oriented industries. The United Nations Industrial Development Organization (UNIDO), set up as a branch of the United Nations in 1967 to help member states with industrial development, has within its organizational structure a "free zone unit" that gives technical assistance on the establishment of free-trade zones. Its 1974 Annual Report states that the following countries asked UNIDO to help draw up plans for such zones: Gambia, Ivory Coast, Kenya, Senegal, Jamaica, Syria, Trinidad and Tobago, and the Sudan. Since 1974 the Egyptian government has been considering the creation of a Hong Kong-style, low-tax, duty-free industrial-port city on the Suez Canal.

In the past two years, further announcements confirm the growing popularity of free-trade zones. On October 15, 1975, the Azores announced its plans for a duty-free port. In late December 1976, the Italian parliament approved a treaty allowing a free-trade area in Trieste. Finally, the victor in Sri Lanka's national election of July 22, 1977, J. R. Jayewardene, described in his first news conference plans to set up a 200-square-mile free economic zone in the country as a matter of urgent priority.

This rebirth of free trade and its manifest attendant prosperity encourages even governments with heretofore controlled economies to open their doors to free trade within their own territories. Socialist policies in Sri Lanka now give way to greater reliance on free enterprise. Taiwan has recently extended tax holidays in its zones from five to eight years to compete with Korea's provisions. In the future, more and more investors will monitor facilities and services in the world's free ports and trade zones. Commensurately, more and more nations are likely to set up free-trade zones to attract foreign investment.

I suspect that economic freedom is a contagious phenomenon. The prosperity that emanates from the several Asian zones may induce the governments of these countries to follow economic policies that move in the direction of greater economic freedom for all its residents, both in and out of the zones. Nineteenth-century Western economic policies of nonintervention in private economic affairs may soon come to describe later 20th century economic policy in Asia.

This rediscovery of free trade is likely to be accelerated if the economies of the West continue to perform poorly. Western capital will seek to escape increasing taxes and restrictions by investing in freer Asian countires. The resultant economic growth and increased incomes will increase trade *between* Asian nations, reducing the importance of the West to Asia's well-being. Groupings such as ASEAN—which could form the nucleus of an Asian free-trade area—may well hasten this growing Asian trend.

Adam Smith has now come to Asia—to the benefit, I might add, of its millions of inhabitants. And who knows—perhaps the success of economic freedom will spur repressive governments to loosen their grip on other areas of people's lives. ◻

A senior fellow at the Hoover Institution, Professor Rabushka is the author of The Changing Face of Hong Kong *and* A Theory of Racial Harmony.

Freeports and Free Trade Zones Around the World

Freeports are places where the import and export of goods is subject to few if any restrictions or taxes. Usually, only liquor, tobacco products and firearms are restricted in some way. There are 11 freeports in the world.

Free Trade Zones are small areas of land fenced off from the rest of the country. Within this area, taxes and other imposts and restrictions are substantially reduced or suspended altogether. They are primarily intended for manufacture for export. Areas where goods may be handled tax-free while in transit are *not* included.

Below is a complete listing of Freeports and FTZs, compiled from Free Trade Zones and Related Facilities Abroad, US Dept of Commerce, 1970 (updated to 1977).

LIST OF FREE TRADE ZONES

EUROPE

AUSTRALIA: Graz, Linz, Solbad Hall Vienna
DENMARK: Copenhagen
FINLAND: Hanko Helsinki, Lappeenranta, Turku
WEST GERMANY: Bremen, Bremerhaven, Cuxhaven, Emden, Hamburg, Kiel
GREECE: Piraeus, Thessaloniki
IRELAND: Shannon International Airport
ITALY: Trieste, Venice
SPAIN: Barcelona, Cadiz, Vigo
SWEDEN: Gothenburg, Malmo, Stockholm
YUGOSLAVIA: Bar, Belgrade, Koper, Novi Sad, Ploce, Rijeka, Split, Zadar

AFRICA

LIBERIA: Monrovia
LIBYA: Tripoli
MAURITIUS: Port Louis
MOROCCO: Tangier
TOGO: Lome

LATIN AMERICA, CARIBBEAN

BAHAMAS: Freeport
BERMUDA: Freeport
COLOMBIA: Barranquilla
DOMINICAN REPUBLIC: La Romana, San Pedro de Macoris
MEXICO: Coatzacoalcos, Salina Cruz
NETHERLANDS: Aruba, Curacao
ANTILLES
PANAMA: Colon
URUAGUAY: Colonia, Nueva Palmira

ASIA

BAHRAIN: Mina Sulman
TAIWAN: Kaohsiung, Nantze, Taichung
INDIA: Kandla
JORDAN: Aquaba
KOREA: Iri, Masan
LEBANON: Beirut, Tripoli
MALAYSIA: Bayan Lepas, Pulau Terejak, Prai, Prai Wharves, Sungei Way, Telok Panglima Garang, Ulu Klang, Batu Berendam, Tanjung Keling
PHILIPPINES: Bataan
RYUKYU ISLANDS: Naha

LIST OF FREE PORTS

SPAIN: Canta
SPAIN: Canary Islands
GIBRALTAR
DJIBOUTI
SOUTH YEMEN: Aden
HONG KONG
SINGAPORE
MALAYSIA: Laboun Islands
COLUMBIA: Providence Island
COLUMBIA: San Andres Island
BRAZIL: Manaus

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WHAT HAS GOVERNMENT DONE FOR YOU LATELY?

- ☐ Banned saccharin and regulated vitamins
- ☐ Created oil and natural gas shortages via price controls
- ☐ Raised air fares by CAB stifling of competition
- ☐ Required TRIS to be added to pajamas—then banned it
- ☐ Forced your children into a busing program
- ☐ Harassed your business with endless OSHA regulations
- ☐ Continually increased Social Security taxes—for a bankrupt system.

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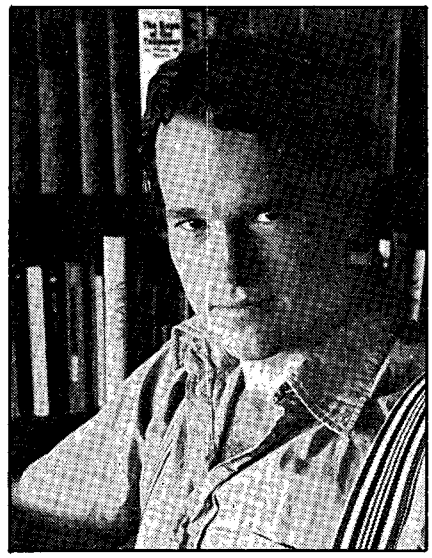
Benign Colonialism

viewpoint



James Dale Davidson

San Juan, Puerto Rico. This tropical island which Gerald Ford wanted to make the 51st American state holds lessons on the limits of political power and political persuasion.

It is a great place to visit to understand something of why the American experience is special in the way that it is. Puerto Rico is not America. It will never be. The Congress and the President, of course, could make a declaration to the contrary by admitting Puerto Rico to the Union. But that would not fool the Puerto Ricans. The distinction between them and Americans of the apple pie variety is fixed in their language. Their world "*norteamericano*" means an inhabitant of the US. This establishes a firm contrast with the Latinos who resent residents of the United States monopolizing the word "American." In an ironic sense, the very strength of the distinction between the Puerto Ricans and "Americans" provides an impetus to the drive for statehood. The current Governor was elected on the promise of seeking admission to the Union, and thus ending the stigma of "second class citizenship." Yet nothing the Governor or the Congress is likely to do will change the fundamental habit of thought which encourages Puerto Ricans to see themselves as a class separate from Americans. They can win the vote in Presidential elections. They can subject themselves to US income taxes. (The fools.) They cannot become "norteamericanos."

Many Puerto Ricans are not so carried away with emotion as to miss the advantages of their equivocal status with respect to American citizenship. The freedom from US income taxes reduces what would otherwise be intolerably high living costs. The absence of tariffs in the US on goods imported from Puerto Rico is a heavily featured attraction in advertisements luring Americans here. And should a Puerto Rican wish, he is always eligible to sample the full panoply of benefits and impositions which government has made the birthright of any American. He need only move to the United States proper, and he is automatically a citizen.

Christopher Columbus discovered Puerto Rico on his second voyage in 1493. For more than 400 years thereafter, Puerto Rico was a Spanish colonial backwater. At first, it was part of Mexico. Then it was administered separately, becoming the "rich port" its name suggests. Spanish treasure galleons sailed in and out of San Juan harbor. This caught the attention of generations of English and Dutch pirates and imperialists. Sir Francis Drake attacked San Juan. So did the Duke of Cumberland. And the Dutch West India Company sent a major expedition which was repulsed from the gates of El Morro castle. When American warships steamed into San Juan in 1898 and the castle guns opened fire, Spain was a senile imperialist power. The US government took possession of the reins of power in Puerto Rico. It has retained them ever since.

Over the years, a half-hearted effort has been made to Americanize what is now one of the world's few colonies. The study of English in the schools was made mandatory. Almost 80 years later, however, Puerto Rico is still Spanish. The language is Spanish. The customs are Spanish. The cuisine is Spanish. And the religion is that which the conquistadors brought to the island. In old San Juan, you can walk through street after street and never see a building which was erected after the American takeover. Even the lampposts in many areas still bear foundry markings from Madrid.

There have been many changes in Puerto Rico, to be sure. But the impetus for most of them was social rather than political. The educational bureaucracy could not teach the people to speak English. But the exigencies of commerce could. In the urban areas, almost all tradesmen speak English, not because the government in Washington thinks it's a good idea but so they can communicate well enough to earn a Yankee dollar from the touristos.

Social power works. Political power does not. Or if it works, it works only barely and not nearly so well as its intense advocates suppose. In 80 years, the American government has failed to make the Puerto Ricans speak English. That is because language is one phenomenon which is truly social. It is not under the direct control of any single mind. And any mind which thought it was, would surely be, as the Spanish say, loco. That was one of the insights in Woody Allen's movie "Bananas." In the story a hairy revolutionary comes down out of the hills in fatigues to take charge of some small Latin American country. As his victorious followers are gathered in the Capitol Square and cheering, El Dictator announces his platform. "From now on, the official language... will be Swedish. Underwear will be changed once an hour. It will be worn on the outside, so we can tell...."

Thankfully, the details of social order are not open to being totally stipulated according to the individual whim of whatever madman happens, at the moment, to hold power. Not even Woody Allen's revolutionary can make Swedish the official language of a Latin country. After 80 years of trying, the US government has succeeded in supplanting Spanish by about the same degree as it has been supplanted in Costa Rica or Mexico. That is to say the effect is just about as far reaching as it would have been if President McKinley had granted Puerto Rico its independence at the end of the Spanish-American War. Given tourism and trade, the people would have learned English anyway.

If the American State had left the Puerto Rican elites to their own devices at the turn of the century and allowed them to form their own independent state, the odds are that the Puerto Rican people would now be living under a much more oppressive, costly, and reactionary government. The average age of a State in the twentieth century is slightly over 30 years. In Latin America, the life expectancy of governments is even lower. If Puerto Rico had been turned loose as was Cuba or the Dominican Republic, the population by this time would probably have suffered under the ravages of three

(*Continued on p. 69.*)

foreign correspondent

Land of Conquest

Mexico City. Mexico has 64 million inhabitants, and their number is increasing 3.2 percent yearly—one of the world's highest rates of population growth. If this continues, we will have 100 million people by 1993—just 15 years from now.

Mexico was conquered in the early 16th century by a band of ruthless Spanish adventurers, led by Hernan Cortes, who displayed in this exploit a military and political genius worthy of Alexander the Great. These Spanish *conquistadores* were the product of centuries of European warfare, and were accustomed to treachery, deceit, dissimulation, lying, and killing as a matter of course in the relentless struggle for life and power, and for gold as a means to both. They were also steeled to efforts and suffering unimaginable to us, both by their hunger for gold and power—which they could never hope to attain in their homeland—and by their faith as Catholics.

Thus, the motivation of the colonists who came to this part of the New World was completely different from that of the Pilgrims and other groups who came to the colonies of the eastern seaboard of what is now the United States—groups made up principally of English-speaking people.

Your colonists were looking, essentially, for religious freedom. Seeking this freedom for themselves and their families, they brought with them the invaluable asset of English Common Law, that marvellous institution, with its protection of property rights. Their Protestantism, with its doctrine of direct relation between man and God, through the individual reading and personal understanding of the Bible, provided the base for the development of intellectual freedom—or was itself already a result of the will to intellectual freedom characteristic of the individuals that made up these groups.

The Spanish *conquistadores* did not come to the Western Hemisphere looking for freedom. Freedom was never their concern. Freedom begins with the conviction that each has a right to think as he sees fit. This conviction was lacking in the minds of the Spanish warrior colonists. They came seeking power through wealth. The priests were the custodians of their consciences and their intellectual guides. Intellectual pursuits suppose intellectual freedom, and the bearers of the new Spanish culture thought they could do well enough without it. The ineffectual, impractically idealist Don Quixote, with his "impossible dreams" was created at the time, and symbolized then, as he still does today, the problem of the Spaniard confronted with impracticable ideas. Is Don Quixote a fool, or a Saint?

The defeat of the Indian population was followed by a mixture of Spanish blood with Indian blood. Most of Mexico's population is of this mixed descent, with the northern regions having a predominantly Spanish aspect, and the Center and South predominantly Indian blood. The defeat was so thorough, the demoralization of the Indian so complete, that today, if the advertising of a product uses brown-skinned models, the general public reaction is that the product is of low quality.

This is an indication of the tremendous complexes borne by Mexicans and the obstacles that stand in the way to development of the country's potential.

The history of the United States was shaped by people who were seeking freedom and therefore independence; the history of Mexico was shaped by people hungry for power and wealth. The Spanish culture was ambivalent; one admired Saints on gilded altars, but went after gold by any means. In this culture, wealth was not to be made, it was to be *acquired,* by cunning or otherwise, from whoever was luckless enough to allow himself to be fleeced.

Since the character of nations changes slowly, it is probable that the same story will hold true in 500 years' time. Mexico cannot, without forgetting all its history and character (a tall order), ever become a free-enterprise country in which property rights are inviolable, in which government is limited to a few specific functions, in which public officials are elected and responsible to the electorate, etc.

There is another important factor in Mexico's past, present, and future: it is a neighbor of the United States.

This article is not about US intervention in Mexico; I shall only say that a weak country such as Mexico, cannot exist by the side of the most physically powerful country in the world, without being the object of extensive intervention, in such ways as to benefit the powerful neighbor State. (Please note that I differentiate the State from the people.) I therefore suppose that Mexico's condition must be, *to some extent,* attributable to a *deliberate, unpublicized policy of the powerful neighbor.*

Although we are being told that Mexico is headed for an oil bonanza, the product of that enormous sea of oil in Southeastern Mexico, yet in the long run, I don't see how we can avoid a collapse. The reasons are, one, that our agriculture does not develop due to collectivist ideology and consequent lack of protection for property rights (though our government and every other related governmental agency in the world has sought the cause of our agricultural failure elsewhere) and two, that our government owns and operates, at a huge loss, hundreds and hundreds of businesses which make it impossible for the country ever to capitalize, as long as they are maintained.

The latest figures on the increase of the money supply are alarming; the increase from December 31, 1976, to December 31, 1977, was 24.8 percent. This increase is in what is known as "M 1," coins, bank notes, plus checking account balances. There is an atmosphere of relief in the country that President Echeverria (1970-1976) is gone, and there is hope that Mexico can regain stability under our President Lopez Portillo, whose term expires in 1982. But the ugly facts will not go away; the inflation is the result of deficit spending, and the deficit is the result of government ownership of enormous chunks of the country's business, run at a loss. I presume the government will not give up its business ventures, until it collapses. With inflation now running at 25 percent, it is not a question of if, but of when.

* * *

I am still not convinced by this article, and I continue to think about why it gave me so much trouble to write—although I do stand by every word. I wanted to grasp the essential about Mexico, but find it elusive. Finally, I have come to this conclusion: you can only convey the essential about a population which shares, to a considerable extent, a system of principles. And our situation is so chaotic, so confused, so intellectually bankrupt, that there is nothing to grasp. As a people we are pulverized, going about our everyday life through simple inertia, living life on a strictly day by day basis.

I see no sign of an intellectual movement likely to produce an improvement in conditions soon. Things will get much worse before they begin to get better—if they ever do. We do have an honorable dissidence, but I have left that the subject for another article.

Hugo Salinas-Price

spotlight

Island Entrepreneur

Who has not dreamed of owning his own island? A private hideaway in the Caribbean or the South Pacific is the vision of many, but few ever come close to achieving it. One man who has is scientist-author-entrepreneur Neil P. Ruzic.

Unlike most island fantasies, however, Ruzic's island will not be dotted with grass huts, golf courses, or luxury villas. Instead, it will be an "Island for Science," a veritable R&D laboratory featuring a seaweed/shrimp farm, monkey colony, wind and solar power projects, pharmaceutical research labs, and a diagnostic clinic—many of them turning a healthy profit.

That mix of futuristic, interdisciplinary technology reflects Ruzic's extensive involvement in industrial research—as inventor, author, and publisher. He is perhaps best known as the founder of *Industrial Research* magazine, which he started in 1958. When he sold it to Dun and Bradstreet in 1970, *IR* had grown to a circulation of 100,000. He remained president of the magazine for two more years, but resigned in 1972 to begin developing his island dream.

Ruzic found what he was looking for in the Berry Islands group in the Bahamas. To be suitable for mariculture (sea farming), the island had to be located on a shelf between shallow and deep water (shallow for farming, deep for shipping access). It also needed a harbor and lakes, and had to be large enough for its own airstrip or be near an island so equipped. Little Stirrup Cay, 125 miles from Fort Lauderdale, Florida, met all these requirements—and it was for sale. For about $600,000, the newly created Neil Ruzic & Co. purchased its island property.

Thereupon Ruzic and his cohorts set about developing their "Blueprint for an Island of Science." An avid outdoorsman and scuba diver, Ruzic spent considerable time on Little Stirrup Cay, gathering detailed data on ocean and air temperatures, wind velocity and direction, flora and fauna, etc. The data thus obtained made it possible to determine which specific activities to pursue in the design studies.

The mariculture plan is a good example. The south shore of the island provides hundreds of acres of very shallow, warm water. Ruzic's interdisciplinary team has designed a "polyculture" system. In "corrals" built in the shallows, seaweed (for agar and carrageenan) will be grown at the surface, conch on the sandy bottom, and shrimp and pinfish in between. The various life forms will live in a symbiotic relationship—the seaweed, for example, increasing the water's oxygen content (benefiting the animals) while the animal wastes help nourish the seaweed. The shrimp will be bred in the island's two lakes, then piped into the offshore corrals.

More than just natural advantages favor the Bahamas location for such a project. "US costal zone and pollution laws are so unwieldy as to virtually exclude salt water mariculture in the United States today," notes Ruzic. Yet his

Neil P. Ruzic

Bahamas location is only 125 miles from the vast us market.

The other planned research and development projects are equally ambitious. Because of the steady tradewinds in the Bahamas, Ruzic views his island as an ideal site for testing various designs for wind power generators. His initial efforts have focused on designs using a delta-wing-shaped roof as a means of concentrating wind energy into tornado-like vortices. This permits a much smaller wind turbine to be used to capture the energy, thereby cutting costs. A model of the proposed facility, developed by Prof. P. M. Sforza of the Polytechnic Institute of New York, indicates that the full-scale version could produce between 10 and 50 kilowatts of power using two propellors only 16 ft. in diameter; a conventional wind generator would need a 60 ft. propellor for that amount of power.

Another plan is to take advantage of the extensive Bahamian sunshine to desalinate water. Ruzic's group has developed a hybrid design, combining the solar humidification techniques developed at Georgia Tech. and the University of Arizona with the more conventional low-pressure boiling method using waste heat from an engine. They are projecting a cost of between 70¢ and $1.01 per thousand gallons of distilled water (not counting the cost of electricity to run the pumps).

A byproduct of water desalination is, of course, a large amount of sodium. Consequently, another planned R&D project is the development of sodium-conductor electrical cables. For a given conductive capacity, copper is 7.5 times as expensive as sodium, aluminum 2.7 times as costly. Prof. Peter Graneau of MIT expects that sodium cables, insulated with polyethylene, would last as long as conventional cables in underwater applications.

Ruzic sees a unique integrated industry growing up in the Caribbean: augmented wind power generating electricity, used (with sunlight) to produce fresh water and sodium, the sodium manufactured (using low-cost labor) into electrical cables to increase the electrification of the islands.

Yet another plan involves breeding tropical animals. The Indian government recently banned the export of rhesus monkeys, which are used extensively in medical research. Ruzic plans to raise them commercially, along with rare zoo animals such as hyacinth macaws ($3000 each), ruffed lemurs ($6000 each), and golden marmosets ($7000). Research on developing pharmaceuticals from marine organisms and on insect biocontrol is also planned.

This wealth of ideas in a wide range of disciplines comes naturally to Ruzic, who is something of a technological renaissance man. Besides editing *Industrial Research* for 14 years, he has rubbed shoulders extensively with inventors and entrepreneurs. In 1962 Ruzic founded IR 100—an annual competition for the 100 most significant new technical products. It culminates in an awards banquet held each year at Chicago's Museum of Science and Industry. No mere dilettante, Ruzic is an inventor himself, holding a patent on a lunar cryostat—a device for achieving temperatures near absolute zero on the moon.

He is also a prolific author of books and

(*Continued on p. 62.*)

washington watch

The Draft: "Standby" Status A Little Less Deep

Quiet preparations to return to a system of registration and classification for a potential new draft have been perceptibly accelerated. Selective Service Director Shuck in late 1977 testified that there are now four major plans being developed within the system having to do with registration, organization and mobilization.

President Carter's proposed budget for 1979 also reveals a $2.9 million increase in the Selective Service system budget, up from its present level of $6.6 million. The additional money is supposed to provide ten area headquarters, and the system is apparently prepared to ask for an additional $17-20 million to do a full registration and classification procedure.

Most of the standby plans for a new draft call for everybody to be classified 1-H, with no opportunity to register Conscientious Objector claims until inductions had started and they were classified 1-A. The National Interreligious Service Board for Conscientious Objectors (550 Washington Bldg., 15th St. & New York Ave., Washington, DC 20005) provides counseling service, and advises young people to write to them, get Form No. 150 and information on filing the C.O. Claim now.

Meantime, a letter to your Congressman and Senators, and especially to Sen. Sam Nunn (D-GA) registering your objection to compulsory service in whatever form, would be a good idea. (US Senate, Washington, DC, US House of Representatives, Washington, DC 20515).

Airline Deregulation Off The Track

Airline regulatory reform, still the most conspicuous issue around offering solid hope of quasi-libertarian gains, continues to be marked by frustrations and delays. The Senate decided to postpone a vote on the committee-passed measure until after debate on the Panama Canal treaties had been completed. Chances of Senate passage are still better than even, but it is difficult to make hard-and-fast predictions anymore.

Especially after what has happened in the House. In the Aviation Subcommittee, partisan wrangling and jealousies have postponed progress quite substantially. Committee Republicans, apparently miffed that they had been excluded from the conferences leading to a rather good compromise bill, voted overwhelmingly for a substitute offered by Elliott Levitas (D-GA). With this full Republican suppport and some Democrat votes, the Levitas substitute, which calls for no reform now, but abolition of the Civil Aeronautics Board in 1983, passed the subcommittee. The compromise measure, similar to the Senate measure in allowing greater flexibility in route entry and exit, pricing and management/market decisions, was simply shelved.

It is momentarily encouraging to see any Congressional committee vote a majority for a bill which calls for outright abolition of any government agency. But unfortunately this was not the real purpose of the substitute. If it became law, it would mandate that there would be no reform now, and would postpone any serious discussion of airline regulatory reform for five years, until the Congress decided whether or not it was really serious about abolishing the CAB. As the deadline approached, the decision would almost certainly be made not to go through with it, but perhaps to institute some minor housekeeping reforms.

Social Security: A Possible Opportunity

Constitutent pressure has apparently persuaded many Congressmen that at least some gestures should be made toward rescinding or softening the recent $227 billion increase in Social Security taxes. This pressure, combined with the fact that the original vote to increase taxes arose from a genuine financial crisis within the system, may offer libertarians the opportunity to push for substantial changes in the Social Security system.

The National Taxpayers Union, whose members have provided much of the pressure on Congress, is moving toward endorsing a proposal which would take all income redistribution and transfers out of the Social Security system and reinstate payouts strictly related to contributions. Once that system were established, the citizen, while still forced to save, could be given the option of using the refurbished Social Security system or an approved private plan.

Whether this system or some more voluntary variant is pushed, the Social Security crisis should offer us a real opportunity to begin the process of getting the Social Security monkey off the nation's back. In letters to your Congressmen, we suggest that you not only complain about the unwarranted increases in taxes, but demand that substantial changes in the system itself be made, in the direction of more voluntarism. Unless the system is radically and fundamentally altered, continuing higher taxes are inevitable. We need to exploit that contradiction.

Tuition Tax Credit

If you haven't yet written a letter to your Congressman and Senators supporting the tuition tax credit proposal (Moynihan-Packwood seems to be the best approach which is politically feasible) please do so. The pressure for some kind of tuition relief seems inexorable, and the Carter administration along with most of the public education establishment is applying tremendous pressure on Congress to adopt the alternative proposal, which would involve more tax money for government-administered grants, loans and scholarships. The tax credit proposal has a good chance of passing, but a lot of constituent pressure will be necessary to counteract the pressure from the other side.

The American Enterprise Institute has reprinted the Senate Finance Committee testimony of Antonin Scalia, University of Chicago law professor, on the Constitutionality of tuition tax credits, highlighting the utter confusion which the Supreme Court has spread on the issue. The booklet is available from AEI for 35¢ (1150 17th St., NW, Washington, DC 20036).

Small Business Proposal

The Ripon Society has issued an interesting Policy Paper called "How to Reinvigorate Small Business," written by *Ripon Forum* editor John C. Topping. It contains an excellent critique of regulation as a deterrent to small businesses, and proposes that the Small Business Administration get out of the business of making loans and become instead, a watchdog for the interests of small business, with special reference to representing small business interests during the regulation-writing and rulemaking procedures of other goverment agencies.

This would be an interesting reform toward a more market-oriented business climate. For copies of the Policy Paper, you may write to The Ripon Society, 800 18th St., NW, Washington, DC 20006.

Alan Bock

money

Taxes Are Revolting: Why Aren't You?

As I sit in a Zurich cafe writing this month's column, nothing seems further from my mind than taxes in the United States—or anywhere else for that matter.

In a sense, I am in the position of a blind man advising those with sight. I pay no taxes worthy of mention to any government in the world. That fact, plus the delightful distractions of Zurich, probably accounts for my view that, in a personal sense, the taxes you and the majority of people pay are, at most, a minor irritant.

One thing I do not feel is that my tax-free status in any way contributes to the downfall of a government. According to one libertarian argument, the widespread failure on the part of citizens to contribute to the support of their government would lead to its downfall. But even if everybody utilised every possible legal means of tax minimisation, the government would simply react by closing tax loopholes, increasing tax rates, or imposing new taxes which are difficult to avoid paying.

Indeed, most tax revenue falls into three categories which are pretty secure from the government's point of view:

- corporation taxes;
- income taxes paid by salary earners. and
- sales or excise taxes.

In all three cases, the taxpayers have little or no means of escape. The salary earner has his tax withheld before he even sees his money. The corporation is a sitting duck and sales taxes must be paid as a condition of doing business. While it is not impossible for some individuals to avoid most or all of these taxes, it is inconceivable that a majority of such taxpayers can or will do so.

This means that if taxes are to be used as a weapon against government, a tax revolt or rebellion is the *only* method with any chance of success. As long as the war between government and taxpayer remains secret and individual, no politician or bureaucrat will feel threatened. The only policy change will be to intensify and strengthen the efforts of the tax collector.

An example comes from Italy where tax evasion is a national pastime. The taxman *routinely* increases assessments by 50-100 percent on the basis that you must have understated your income. Thus, even if you want to pay just what the law says you should, you must cheat to avoid paying more! Though the Italian government is in continual danger of collapse, it is not about to collapse into libertarianism.

While to pay no taxes may be virtuous, to do so legally or secretly is of no political significance. I would go so far as to say that if one pays no taxes, one cannot join in a tax rebellion! To rebel against taxes, to use taxes as a political weapon, one must openly and publicly refuse to pay taxes. Once one takes such a public stance, one invites retaliation by the tax authority. It is this fear of retaliation which prevents many people from joining the tax revolt.

Although tax minimisation depends for its effectiveness on secrecy, while tax rebellion requires open refusal, it is possible to "eat your cake and have it too." Success depends on following a few simple rules, though there always remains an element of risk.

What is the risk? That the IRS will decide to focus its attention on you. Should it do so, your tax resistance would prove a highly expensive undertaking even if you have nothing to hide!

The powers of the IRS are totalitarian and wideranging. Their law is the Napoleonic Code: guilty until proven innocent. They are also willing to spend $1000 to get $10, which weighs the odds severely in their favor. Thus, if you do become the target of an IRS investigation, you could face a long and expensive legal battle to prove your innocence.

In one sense, however, the powers of the IRS are overrated. One hears many stories which give the impression that the IRS knows all about every American's tax affairs. The IRS' awe-inspiring image derives from those widely-reported, but very few cases (as a percentage of the tax-avoiding population) where the IRS has spent virtually infinite resources in constructing such detailed knowledge. The payoff is not in the dollars of tax money collected; the payoff is that millions of Americans live in abject fear and awe of the IRS.

Let's not swing the other way and *under*-estimate the expertise of the IRS. The United Kingdom tax authorities, for example, have just sent a study team to the United States with the aim of adopting the American techniques against the erring British taxpayer.

The risks involved in tax rebellion are reasonably low if:

- You are confident your tax minimisation arrangements are perfectly secure and secret (if illegal); or entirely within the spirit and letter of the law.
- You are an "average taxpayer" who does nothing illegal.
- Your tax minimization arrangements are perfectly normal methods.

If, on the other hand, your tax arrangements would not stand up under scrutiny; you have not kept your foreign bank accounts or use of tax havens properly secret; if, in other words, there is something the IRS could get its teeth into, you could do the tax resistance movement positive harm. I have no doubt that should the tax rebellion spread, the IRS will do as much as possible to destroy and discredit it. Proving to the public that a few of the people involved (and by implication the movement as a whole) are merely tax evaders seeking to feather their own nests would do much to undercut the movement's ethical base.

One final safety is in numbers: the more people involved, the fewer resources the IRS will be able to direct at you. So which do you want to be: the chicken or the egg?

Mark Tier

spotlight

(*Continued from p. 60.*)

articles on social-technical issues and the future. His *Where the Winds Sleep,* a 1970 Literary Guild selection, is a future history of the scientific colonization of the moon. *Spinoff 1976,* produced for NASA, documents the many industrial, medical, and household spinoffs of the space program. He has also written books on creativity and two books on scientific and engineering careers for young people. Besides writing seven books and numerous articles and editing *Industrial Research,* Ruzic also found time to found *Oceanology* magazine in 1966 and to publish both *Electro-Technology* and *Control Engineering.*

After two decades of writing about research and technology, Ruzic is now spending full time following his own advice. With his Island for Science, he hopes to demonstrate the value of an unconstrained, interdisciplinary approach —and both have fun and make money in the process.

Robert Poole, Jr.

Readers are invited to nominate persons to appear in this column. Send details to Spotlight, REASON, Box 40105, Santa Barbara, CA 93103.

movies

• The Duellists • Coma • Coming Home • The Fury

• Two years ago we had *Barry Lyndon*; now we have **THE DUELLISTS**. The two films have much in common. They are among the most visually beautiful films ever made. Both films reek with atmosphere. Both take place in the Napoleonic period, and both have to do with the military. Characters in both are consistently drawn, but not profoundly. Those who liked the first are likely to like the second.

In most films, plot is the most important consideration; in the vast majority of the remainder, character is. In these two films, setting and atmosphere are paramount. Those who desire continuous action or probing character study should not bother to see either of these.

Within these limits, *The Duellists* has more to offer than most current film fare. It is a story of how a minor and accidental slight can become an obsession which follows men throughout their lives. The duellistic "code of honor" is really the principal subject of the picture. It reaches—to 20th century minds at least—such heights of absurdity that one wonders how it could ever have been carried to such lengths (yet the story told in the film is supposed to be a true one). When one duellist requests political pardon for the other, thus perpetuating the pointless conflict, the film's credibility with many viewers snaps, and with it much of the sympathy for the principal character. Keith Carradine and Harvey Keitel do well in parts which call for no depth of characterization but considerable skill in duelling. The fault lies not in their portrayal, nor even in the shallowness of the roles assigned them, but in the ridiculous "code of honor" they practically kill each other defending.

—John Hospers

• If nothing else, **COMA** is a neat little thriller. It is also enough, if you take it seriously, to make you resist ever going into a hospital again—in view of its main theme, the manipulation of anesthetics so as to put patients into a permanent coma. There is also the tried-and-true theme of "everybody thinks she's crazy" and tries to soothe her instead of investigating the data, but she turns out to be right. This film hits several psychological jugular veins; and though it has flaws, it is a tidy job of unpretentious filmmaking.

It also deals explicitly with the collectivist theme "the individual doesn't count, only society does" ("The individual is too small," says one of the characters), and it even attacks that thesis. But the attack is somewhat incoherent: it isn't really clear, for example, how having carbon monoxide put into the anesthetic of certain patients is going to do "society" any good: there are surely enough comatose patients to experiment on as it is, if that's what you think "society" needs.

Some of the scenes are quite terrifying, with the added psychological thrust of "this could happen to me if I went to the hospital." But the point of the picture is so obscured by the hunt-and-chase scenes that very few viewers will emerge from the theater singing the praises of individual liberty or objecting to State interference with it. And this is a pity, since the material that would illustrate that thesis is vividly marshaled before us.

—J.H.

• I suppose that the idea underlying the making of **COMING HOME** was that it should be an intense love story, a breaking of ground on the subject of the Vietnam war, and most of all a powerful indictment of that war.

Unfortunately, it does not come off as much of anything. There are excellent actors—especially the three principals, Jane Fonda, John Voight, and Bruce Dern—and a seasoned scriptwriter, Waldo Salt, who provides a few good lines. But the film fails completely in the directorial department: it needs a strong hand to pull the pieces together, to make the action and the characterizations sharp, and to move powerfully from one scene to the next, and none of this is done. It is as if we were seeing the "first draft" of a film rather than the film itself. The music is so constant and intrusive that one often longs just for silence. As the music (or noise, depending on one's point of view) rises in decibels and the scene accelerates in emotions shown per minute and we think we are coming to some kind of climax or resolution, it then changes suddenly and we are left grasping at nothing.

I found it impossible to identify emotionally with any one of the characters. Nor are their motivations really presented in enough depth to help us understand why any of them behave as they do: mostly they are just characters going through roles. Combine this with the suspicion that the whole film is made from an ideologically stacked deck, and you have an aesthetic and an ideological failure at the same time. The year's most ambitious American film so far is also its major disappointment. When one aims high and then falls, the fall is greater than if there had been no attempt to attain the heights in the first place.

—J.H.

• When laws of nature are suspended in films, the usual result is that "anything can happen," and usually does, without much rhyme or reason; and so, instead of the viewer's expectations being frustrated, he has no idea what kind of expectation to have. Those who introduce supernatural powers tend to get carried away with them.

This is not the case with **THE FURY**, which is, at the least, a tidy and exciting thriller; as entertainment—and it can hardly pass as a lecture on parapsychology—it succeeds, provided that the viewer is not unduly squeamish. Director Brian De Palma has outdone his achievement in *Carrie*—which by itself is not saying much; but the continuity is much smoother, the music is superior, the buildup is more competently attained, and the story-line is semi-intricate without being confusing. The characterizations are also better—veteran actors Kirk Douglas and John Cassavetes in juicy parts, and a collection of new acting talent displaying good potential.

Both films deal with telekinesis, the power to move objects by mental concentration alone. There is also a trace of a different power, pre-cognition, which is quite different from telekinesis. The success of the film as a suspense yarn, however, need not be traced to supernatural causes, but to certain plot-twists and plausible surprises: for example, there is a main plot involving characters A and B, and a second plot juxtaposed with it involving characters X and Y, and when a bit later the viewer sees A in the same scene with X he wonders what the connection is. In the end all is made clear, if not with the self-confident aplomb of a Hitchcock, at least with plausibility and a good dose of suspense along the way.

Such success could not have been achieved if the telekinetic powers had been employed with abandon; but they are used sparingly, in a narrowly defined context. Sometimes A, who has clairvoyant powers, doesn't even know that B, the object of the search, is nearby, for the power is manifested only under carefully specified conditions. Knowing what the conditions are, the viewer, however skeptical he may be of supernatural powers, is inclined to go along with them for the sake of the ride. And the ride is exciting enough to justify the "willing suspension of disbelief."

—J.H.

books

The Save-Your-Life Defense Handbook

By Matt Braun
Old Greenwich, Conn.: Devin-Adair.
1977. 189 pp. $10/$5.95

Exotic Weapons: An Access Book

By Michael Hoy
Mason, Mich.: Loompanics Unlimited.
1977. 37 pp. $4 (paper)

Animal Husbandry and Veterinary Care for Self-Sufficient Living

By Guy Lockwood, D.V.M.
Phoenix: White Mountain Publishing.
1977. 330 pp. $12.95/$7.95

Reviewed by David Sutton

In the attempt to become self-sufficient, most people, perhaps ironically, have to rely on others. Self-sufficiency doesn't come automatically; one has to learn how to do important things for oneself, and learning by trial and error is the arduous way. There is a market, then, for how-to books in the area, but not all of them are in fact reliable.

Matt Braun wrote *The Save-Your-Life Defense Handbook* in five chapters. If he had done it in as many paragraphs, it would have been less tedious to read and could still have contained every line of any value that appears in the book.

There is a good deal of homey philosophy, some sound and pithy advice, and more misinformation than I have seen in one place for quite some time. One could put his constant sexism down to the generation gap, and some of his combat ideas could be attributed to the types of training he had; but many of the methods and attitudes he represents in this book are dangerous in the extreme, presented as they are for the supposed instruction of amateurs. I note that in the jacket blurb the author is referred to as a historical novelist, but the list of titles on the "Books by" page reads like the Westerns section of the library. That is a good clue to the style of this book.

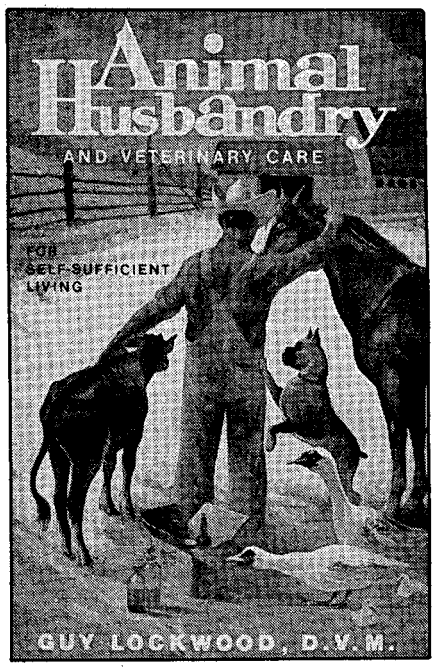
Chapter 1, "Crime and Self-Defense," recounts every "ain't it awful" gripe in the conservative lexicon concerning the condition of our courts, streets, and cities. There is not much to disagree with here, but in a book that would not be purchased by anyone not already convinced of what it has to say, it serves as so much repetitive filler.

Chapter 2, "Home Security," treats of locks, alarms, and watchdogs. There is very sketchy mention of a few locks, a remote overview of alarms; the section on watchdogs is good as far as it goes, which isn't far.

Chapter 3, "Hand-to-Hand Combat," begins to be irritating. Here, we encounter the first of the 60 action photos touted on the cover. They are not action photos. They are still photos of frozen and posed persons, the author foremost among them. The blows shown could not be thrown, as they are shown in the photos, without exposing the thrower to the risk of serious injury from even the most innocuous of opponents. They are supposed to be usable by amateurs; they are frankly dangerous to no one *but* the amateur unlucky enough to try them. Again, the jacket blurb says that Mr. Braun is a former Army officer and Ranger instructor. If so, he should know better than to perpetuate the myths he does, for example, by suggesting that a heel-of-palm blow upward to the nose will project bone and cartilage into the brain (into the sinus processes, yes). Then he suggests that by a similar blow to the sternum, the devastated breastbone can splinter and penetrate the heart. A really terrible blow to the sternum may unmoor some ribs; but it will *not*, for heaven's sake, put the *sternum* anywhere near the cardiac sac!

Chapter 4, "Gunfighting," contains some interesting ideas for training, but they are not enough to offset the serious errors promulgated here. Anyone who recommends firing from below eye level with a handgun at 3 to 7 yards is doing no favors for those who believe him. Mr. Braun favors a shotgun for amateurs. Fine; he could have stopped with that recommendation and thereby improved the chapter.

In Chapter 5, "Knife Fighting: A Knife Fight is Dirty Business," Mr. Braun has managed to show the most overextended, unworkable, dangerous style I have ever seen portrayed anywhere. Anyone who ever has to fight anyone with knives should hope his opponent will have read and believed every word in that awful chapter in Mr. Braun's book.



There are a few gems in the book; they are of use only to someone sufficiently well-grounded to sift out the vast amount of dangerous and misleading material. If you still want to read the book, buy it at the paperback price of $5.95. The hardback price of $10.00 is totally unmerited. Better yet; wait and buy it used. You shouldn't have to wait long.

In contrast to the foregoing, Michael Hoy's *Exotic Weapons* does what it sets out to do. This very interesting access book is broken down into two sections: General Access and Specific Access. It is a listing of where to find information on everything from air guns, machine guns, infernal machines, body armor, and silencers, to boomerangs (really!). It is a book of specialized interest, but $4 is an honest price; the book promises and gives the reader informational access to exotic weapons.

Also in contrast to the Braun book, veterinarian Lockwood's book is uniformly worthwhile. It is a gold mine for the beginning or even established small farmer or homesteader and belongs in the library of any serious retreater.

Dr. Lockwood does not attempt to give a four-year course in veterinary medicine in one volume. Nonetheless, he manages to cover the basic principles of housing, sanitation, sterilization, nutrition, disinfection, care of wounds, meat inspection, and farmstead and fencing layout, though not in that order or to the exclusion of specific advice on the more common

domestic animals.

This is not a pretentious everything-you-ever-wanted-to-know book. It is the most solid collection of readable, usable basic information I have had the pleasure of reading in several years. Dr. Lockwood has done enough work on this one volume to justify much more than the paperback price of $7.95, but anyone genuinely interested in the book should buy the hardback version at $12.95, for it's a book to be reread and referred to constantly.

In one area alone, this book justifies its existence, exclusive of the rest of the excellent material present; Dr. Lockwood has worked out nutritional needs, feed compounds, and so on for each variety of livestock discussed and has translated that to acreage needs in farmstead layout. This is invaluable, as anyone who has ever tried to divorce himself and his stock from dependency on the feed store will realize.

I must resist the impulse to resort to a listing of contents; done properly, it would take too long. Suffice to say, everything from reduction of bloat to butchering is covered, and it's done well.

The information on disinfection and sterilization is worth reading, even if your retreat ideas include no domestic stock at all. And the section on livestock medications is worth memorizing for the no-nonsense breakdown of medicine types, substitutes, and applications.

Perhaps the most important thing about this book is that it faces up to the fact that many situations require drastic solutions, and it tells the reader how to set up so as to avoid such situations in the first place. Coping with reality is something vets do very well as a group, and Dr. Lockwood excels.

David Sutton is an authority on armed and unarmed combat and a variety of physical survival subjects.

How To Survive a Spastic Economy

By David E. Rhoads
San Diego: D. J. Press. 1978. 170 pp. $9.95 (paper)

This book is a fooler. It looks like just another gloom-and-doom book. Early on though, two distinguishing features emerge to differentiate it from many other investment or business management books available today—gloom-and-doom or otherwise: Rhoads' description of the world's economic and financial problems is articulate; furthermore, he accurately identifies the product of those problems—uncertainty—and tells how to cope with it.

How To Survive a Spastic Economy is organized into two sections. Book 1 describes our problems and shows where they came from (you guessed it, inflation is the culprit); then, Book 2 tells how to survive them. Abundant graphs and illustrations along the way make the trip through both sections impressive and understandable.

The first part's graphs include a 150-year interest-rate history that illustrates the immensity of today's predicament, an extraordinary comparison of the consumer price index with the money supply, and a graph of the monetary debasement that powered the dissolution of the Roman Empire.

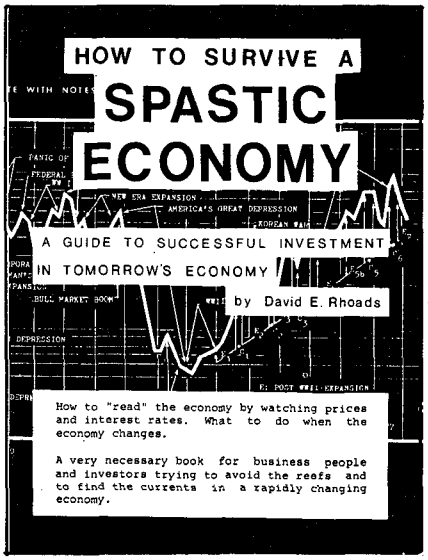
While Rhoads warns against over-dependence on forecasts, he does predict that severe economic difficulties must be anticipated, probably around 1981. He explains that a crisis must occur. We must destroy the artificial wealth created by 40 years of inflation. Only that can free up our economy. The book goes on, however, to show how the wealth-destruction process can take several different forms, why the final form will be unpredictable, and why the process must be violent.

The second section tells how to arrange your assets to minimize the shock of rapid economic change and to maximize profit opportunities, how to use "trading" techniques to protect against being whipsawed by violent markets, how to ascertain the economic "weather," and what to do about it.

In Chapter 8 Rhoads really hits his stride. There he explains how to monitor the economy and its markets—and how to tell when the Federal Reserve System does something to them. He shows how to differentiate between a supply-demand-initiated price move and one caused by monetary change. Then he presents defenses against *all* monetary policies (inflation, deflation, stability) in all their possible degrees (from "mild" to "hyper"). He also tells how to determine which policy is actually in effect.

There are addresses for market and price information (most of it free), and instructions are recapitulated in an easy-to-follow, shorthand decision table and some sample portfolios.

Unfortunately, Rhoads had to publish


HOW TO SURVIVE A
SPASTIC
ECONOMY
A GUIDE TO SUCCESSFUL INVESTMENT
IN TOMORROW'S ECONOMY
by David E. Rhoads
How to "read" the economy by watching prices and interest rates. What to do when the economy changes.
A very necessary book for business people and investors trying to avoid the reefs and to find the currents in a rapidly changing economy.

this work himself. Consequently, while the book is well designed and of good quality, I do wish its author had retained an editor to help him with his redundant style. (I never want to see another sentence beginning with "and," "but," or "so.") He might also have presented more information on the various investment vehicles he talks about.

Still, it must be admitted that where other financial and management writers today have merely described the legs, ears, or trunk of economic survival and profitability, Rhoads has described the whole elephant—and he's done it masterfully.

—Mark Nobel

How To Make Money in Coins

By John V. Kamin
Tarzana, Calif.: Forecaster Publishing. 1977. 285 pp. $15 (paper)

John Kamin's book is touted as a source of money-making techniques for "insiders and experienced coin investors." And it is true that only such readers could overcome his careless presentation and uncover the useful advice that is hidden in this disorganized stream of talk. Many valid, if not new, ideas are presented, but one must first wade through a heavy-handed writing style that often lapses into a blatant sales pitch for the author's newsletter.

There are, however, some excellent sections and solid words of advice. Kamin states, quite correctly, that "numismatic value coins that appeal to collectors perform much better than common gold or silver coins." Another sound idea: "The coin speculator who carefully commits his funds to a varied selection of rare coins covering many different areas will reap the greatest benefits. Be prepared to hold your coin commitments for from 3 to 7 years." The section on borrowing money from banks on coins is first-rate, as are those on counterfeit coins and his recommended coins.

These excellent passages are easy to miss in the maze of his unedited, choppy writing and occasional inconsistencies. In

his discussion of counterfeit coins (the longest single topic in the book—20 pages), Kamin suggests that the best protection against counterfeits is to avoid purchasing those dates that are known to have been counterfeited. That is good advice. Later, however, he recommends the purchase of the Lynchburg commemorative half-dollar (another piece of good advice) but adds the caution that "counterfeits have been seen in the Lynchburg." Not only does that contradict his earlier advice to avoid purchasing coins that have been counterfeited; it also contradicts fact. In my experience and that of the American Numismatic Association Certification Service (ANACS), there are no known Lynchburg counterfeits. Further, he fails to list the five silver commemoratives that *have* been counterfeited: Lafayette, Hawaii, Hudson, Cincinnati, and Spanish Trail.

In an all-too-obvious attempt at self-promotion, Kamin takes credit for at least one idea that is clearly common knowledge: "The risk/reward ratio (RR) is one unpublicized tool invented by the author." While some credit might be due for quantifying this concept and applying it to rare coin investment, it can hardly be considered an original "invention." This kind of presumptuousness on the part of the author makes it difficult to recognize the worthwhile advice nestled in this book and even more difficult to accept and implement it. More importantly, Kamin glosses over the most important part of risk/reward analysis—the projection of potential profit and loss—without any guidelines for determining these variables. Although he states that "for RR analysis to be useful, your potential projections should be as accurate as possible," it would seem that a real "insider" deserves more depth.

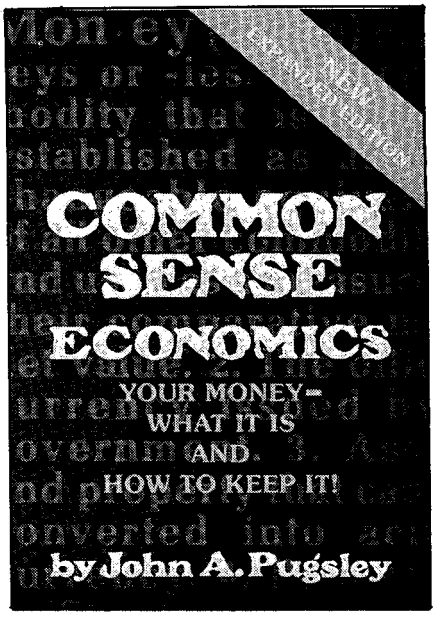
The strong point of the book, which makes it worth its purchase price of $15, is the list of coins Kamin recommends purchasing for long-term gains. A novice would be well-advised to buy the book and read only the recommendations. Unfortunately, many sophisticated and knowlegable investors will be "turned off" long before this last chapter of the book.

How to Make Money in Coins suffers badly from the hard sell for the *Forecaster* (mentioned by name 13 times in the first 50 pages), as well as an overwhelming number of underlined words and incomplete sentences. Armed with this warning, you may find it worth reading, but it is definitely not for the novice. You will need some knowlege of the numismatic market to recognize Kamin's strengths, correct his inaccuracies, and mentally edit as you read. I found it stimulating, if irritating, reading.

—Walter Perschke

Common Sense Economics

By John Pugsley
2nd ed. Costa Mesa, Calif.: Common Sense Press. 1976. 327 pp. $12.50



If there is one overriding impression one gets from this book, it is its *clarity* and *conciseness.* Pugsley has put together a remarkably well written treatise on economics and investing for the layman and professional alike.

The chapters on insurance and tax avoidance ideas are especially good. Now, insurance is certainly not a gripping subject by any means, but Pugsley succeeds in presenting his subject matter in such a way that one is compelled to read every word for fear of missing one of his astute observations. He is not one to reiterate or digress too often. His clarity and terse writing style sustain the reader's attention. His discussion of disability insurance, for instance, is enlightening and alone worth the price of the book. Pugsley understands insurance principles and gives us a very useful guide for determining a suitable insurance program.

His section on tax-sheltered investments is prefaced with a discussion of the tax protest "movement." He believes that the "logical protest" of employing legal tax shelters (qualified retirement plans, personal incorporation, and tax-sheltered investments) is better than martyrdom and financial ruin.

The chapter on income taxes also includes a fair amount of type on the investment annuity. I was excited about this investment, too, when I published "Financial Independence and Tax-Sheltered Investments" in the June 1976 issue of REASON. Unfortunately, it was disallowed by an IRS ruling last year.

The introductory chapter is a dissertation on how government intervention mucks up the economy. Nothing new—but well stated. It is integrated with his philosophy that, armed with a clear understanding of finance and economics, and rational investment planning, you can design a strategy to achieve your goals in spite of external forces.

The chapters on plans and strategies incorporate a comprehensive review of virtually every investment known to man. Some are dealt with at length (precious metals and common stocks, for example) while others are peremptorily and unfairly dismissed (real estate). I flatly disagree with Pugsley's comment that "real estate, in general, is one of the most dangerous investments in the US today" (p. 191).

The only other counts against this book are the omissions. The second edition was published in September 1976. Yet, there is no mention of the hottest, new investment vehicle around then—listed stock options on the Chicago Board of Trade. The advent of a standardized secondary market in stock options in 1973 dramatically altered equity investing for speculators and stock investors alike.

A greater oversight, however, was Pugsley's failure to consider the "Tax Reform Act of 1976," which was the most sweeping change in the estate and capital gains tax laws in 20 years. Although it went into effect on January 1, 1977, most of what was to come had been publicized by the time this book went to press. As a result, there are a few inaccuracies in the text, and the Federal Estate Tax Table in the appendix is obsolete.

In any event, this book is well worth reading and referring to from time to time. It is very informative, even enlightening at times. Above all, it will give you sharper focus and a framework for determining your investment strategy in advance.

—E. Raymond Pastor

"I think in sort of evolutionary terms—that the United States is really the most highly evolved nation in the world. I use the rights of the people as a barometer for that. Again, change—a lot more change—has to occur. The people need more rights. But these days socialism is always shown representing the future. However, experience has shown socialists/communists strap onto people the most oppressive regimes in the history of the world."

Eldridge Cleaver
Rolling Stone

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frontlines

Clark for Governor

The campaign in California may be the best opportunity this year for libertarians to recruit and persuade independent voters of the significance of the cause. Roger MacBride received roughly 60,000 votes in 1976 in California, and the maverick tendencies of the state's population are well known. The Libertarian Party of California is the largest in the nation, as befits the largest state.

Ed Clark received the nomination of the California L.P. in February and immediately scored media attention. He appeared on three of the Los Angeles TV channels, including CBS and NBC, and was covered favorably by the *Los Angeles Times* political writer. In early March, he and Dr. Thomas Szasz appeared jointly in four cities speaking on the issue of involuntary mental hospital commitment and promoting Clark's candidacy. Clark's campaign plans include weekend trips to six major metropolitan areas in the state between March and June to consolidate libertarian grassroots support and cultivate media relations.

The petition drive to attain ballot status, which is confined by law to a few weeks in mid-summer, will be a major testing period for the Clark campaign and the California L.P. The successful petition drive for MacBride in 1976 was one of the most tense "cliff hangers" of that campaign year, but in the final weeks the total number of signatures doubled and doubled again. The organization of local petitioners is one of the campaign areas in which the California libertarians have been very successful. The Libertarian Registration Effort (LIBRE), which has been under way for over a year, has dramatically increased the number of voters who are officially listed as Libertarians on the poll lists, and one of Clark's campaign goals is to boost this number to over 45,000 in the January 1979 official tally by the Secretary of State. This number of registered voters would put the L.P. within reach of permanent ballot status for the 1980 Presidential election. Ed Clark will appear on the ballot as an Independent, because of California election law, in the absence of this sufficient number of registrants.

Clark is exceptionally well suited to represent the L.P. in the governor's race this year. A graduate of Harvard Law School and Dartmouth College, he is a former naval officer, 47 years of age, married, and a father. He is Associate General Counsel of the Atlantic Richfield Co. in Los Angeles. He was one of the founders of the Libertarian Party in Denver in 1972, and was the first Chairman of the Free Libertarian Party in New York. He has served as Chairman of the California Libertarian Party in 1973 and 1974, and has been a member of the L.P. National Committee since 1972. At the national conventions of 1974 and 1975, Ed Clark was chairman of the Platform Committee.

CAMPAIGN STRATEGY

One of the problems encountered by libertarians in political campaigns is the dilemma between "realistic" compromising issues, which seek to maximize vote totals—but usually backfire—and "purist" campaigns which warm the heart of the hard-liners but strike the media and

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voters at large as curiosities. The Clark campaign intends to cut a new channel by focusing on a small number of issues where the hard-core libertarian position already appeals to voter sympathies. "It just doesn't make sense to talk about eliminating public roads, when we can attract thousands of new voters by supporting popular ideas like legalization of Laetrile or expanding private schools," Ed says.

His opposition in November will be Carter's nemesis, Democrat Jerry Brown, and a Republican yet to be selected. A leading contender is former Los Angeles police chief, Ed Davis, who has cultivated a social conservative image. One of Clark's campaign brochures includes the headline, "Jerry Brown is a Thief," and lists the libertarian issues which Brown has collected as part of his own "new politician" image. The libertarian campaign would aim at winning two percent of the vote in a close race, or five percent in a race which was not so close. The minimum number of votes aimed for would be 200,000, which exceeds the margin of victory which Brown gained in 1974.

Clark has retained the consulting firm of Robert Nelson & Associates. They plan to develop a number of radio and television commercials for use following the petition drive, in September and October. The campaign plan includes a heavy emphasis on the broadcast media, as the $375,000 budget would indicate. In addition, a full-time, paid campaign manager has been included in this budget. The explicit goal of the campaign is to bring the Libertarian Party visibly into the foreground as the "balance of power" in California politics. Given Jerry Brown's eclectic approach to issues, a strong showing by Ed Clark in 1978 could produce an extremely interesting political fight among the Democrats nationwide in 1980 if Jerry Brown runs against Carter and continues to steal issues from the L.P.

One of the major issues in the period leading up to the California June primary election is the Jarvis-Gann tax limitation initiative, cutting the local property tax. This issue is expected to pass, although virtually the entire industrial and political establishment in the state is opposed to it. The tax initiative is unsettling to the politicians because to maintain the present level of government spending, some other tax would have to be increased. If this tax initiative passes, Ed Clark will be sitting right in the middle of the issue as the only candidate who favors more tax cuts, not tax increases, and who would solve the government fiscal crisis by cutting public school funding and encouraging private schooling.

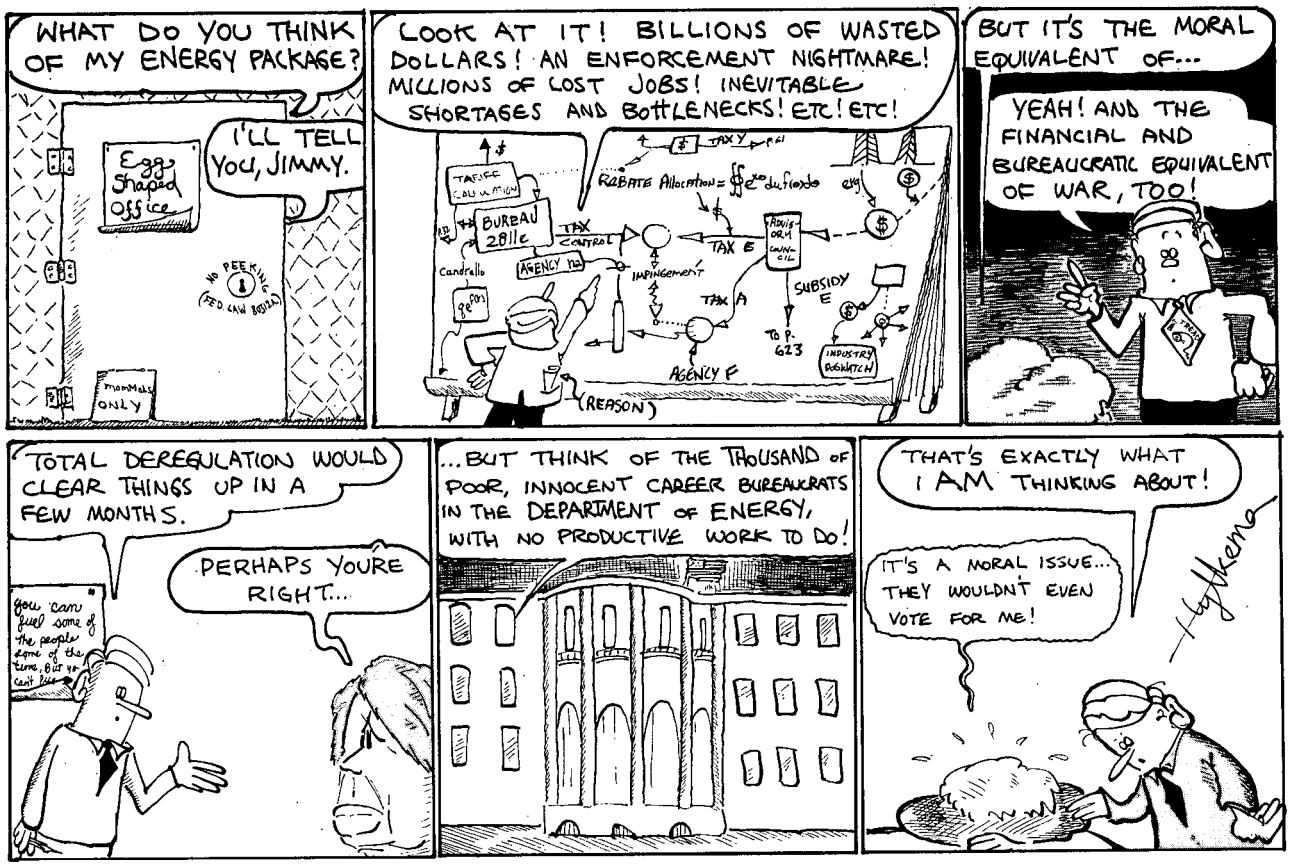
The campaign of Ed Clark for Governor of California this year is clearly important to every libertarian who is serious about political change. As Clark wrote in a letter to members of the California L.P. before his nomination, "I have become a candidate because I want to participate in changing the course of history. I hope each of you will also see the campaign as an opportunity to participate in this goal." It may sound hyperbolic, but this is essentially what the libertarian movement as a political venture is all about. To achieve any part of this goal, the $375,000 campaign budget will have to be funded. You can help by sending a contribution to the Ed Clark for Governor Committee, 540 Vine Street, Apt. 1, Glendale, CA 91204.

Joe Cobb

This column is concerned with an analysis of activities on the "frontlines" of the battle of political principles, and with news about people who are active in the struggle. We appreciate news and ideas from readers. Please send materials to Joe Cobb, Box 1776, Chicago, IL 60690 for consideration and use in FRONTLINES.

rudebarbs

by Randall K. Hylkema


WHAT DO YOU THINK OF MY ENERGY PACKAGE?
I'LL TELL YOU, JIMMY.
Egg Shaped Office
LOOK AT IT! BILLIONS OF WASTED DOLLARS! AN ENFORCEMENT NIGHTMARE! MILLIONS OF LOST JOBS! INEVITABLE SHORTAGES AND BOTTLENECKS! ETC! ETC!
BUREAU 28IIc
AGENCY F
(REASON)
BUT IT'S THE MORAL EQUIVALENT OF...
YEAH! AND THE FINANCIAL AND BUREAUCRATIC EQUIVALENT OF WAR, TOO!
TOTAL DEREGULATION WOULD CLEAR THINGS UP IN A FEW MONTHS.
PERHAPS YOURE RIGHT...
...BUT THINK OF THE THOUSAND OF POOR, INNOCENT CAREER BUREAUCRATS IN THE DEPARTMENT OF ENERGY, WITH NO PRODUCTIVE WORK TO DO!
THAT'S EXACTLY WHAT I AM THINKING ABOUT!
IT'S A MORAL ISSUE... THEY WOULDN'T EVEN VOTE FOR ME!
Hylkema

viewpoint

(Continued from p. 58.)

or four unpredictable dictatorships.

As it is, they've had the advantages of colonialism. Those evolve out of the fact that the main seat of power in a colonial government is many thousands of miles away. The farther away the government, the better. The distance not only makes it impractical and unlikely that the major political figures will exercise any direct control, it also makes it unlikely that leading local citizens can exercise any influence over the government. This makes everyone behave. When individuals who would otherwise form the power elite cannot manipulate power, and thus change the rules of social order to their own advantage, they have to be content with living within the rules. This means that people who would otherwise go into politics commit their energies to commercial life instead. Where the legal structure provides free access and opportunity to trade and protects property rights, as has been the case in most American and British colonial efforts, the natives are positively blessed so long as ultimate law-making authority rests at home in the imperialist country.

The Puerto Rican economy today is benefitting from the benign neglect of colonialism. Government spending is extremely low by mainland US standards. Duties, tariffs and taxes on many products are nonexistent. Industries locating in Puerto Rico are guaranteed, under some circumstances, that they will be immune to certain taxes for many years to come. These guarantees are worth much more in the current circumstance, where ultimate political authority resides in Washington. If Puerto Rico were an independent nation, the prospects that any government would last long enough to provide meaningful guarantees of commercial freedom would be minimal.

If Puerto Rico were a state, as Gerald Ford proposed, the citizens would be as heavily taxed and as over-governed as those in New York or Massachusetts. The prospects for individuals to prosper in politics would be greatly increased and before long politics would be engrossing everyone's attention.

And that must be bad, from the perspective of any friend of liberty. For as one soon discovers when he steps outside the small circle of intellectually active persons for whom the cause of liberty is important, that cause plays almost no role in the emotional and imaginative life of average people. This is true, even in the continental United States, where the tradition of libertarian sentiment is stronger than perhaps anywhere on earth. In other lands, in Latin countries especially, this tradition is far less viable. Most of the important works of libertarian literature, academic as they are, are not even available in Spanish. Even if they were, one would hardly know how to go about making them an active part of a people's imaginative life. If one wants to know what really interests people and thus will be part of their politics, he looks to their popular, best selling books; their movies, records and other entertainment—even the graffiti written on their walls.

In Puerto Rico I spent days looking at the walls. They are never of a uniform color, having been painted and patched dozens of times over the centuries. Here and there, the modern, pastel colors have chipped away to reveal another century's thoughts. Most could have been written yesterday: Lovers announce their intentions. Vistors proclaim "I was here." And always, there is the symbol of the cross and the legend "Christo Viene." Here and there in modern magic marker is scribbled the hammer and sickle, "Apoya Socialism," or sometimes a stenciled rifle is held in a spray-painted black fist. Other common slogans include "fuera pornografia." Only once did I see the word "libertad." It was written in neon on the marquee of a jeweler's shop. ◻

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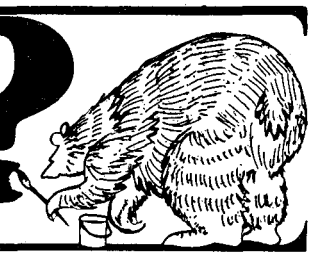

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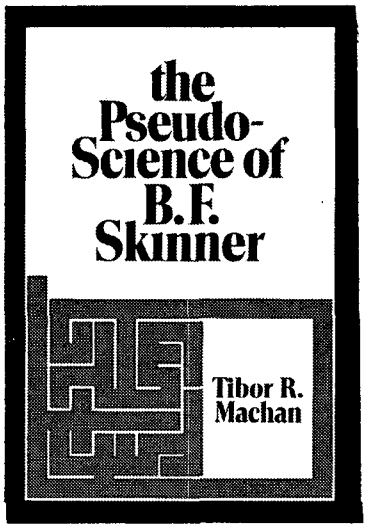

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letters

(*Continued from p. 13.*)

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Harry D. Schultz, KHC
Amsterdam

Energy Efficiency

I suppose it is bad enough for such as Barry Commoner to give instructions on thermodynamics, but it is even worse for the critical Dr. Beckmann to stretch overstatement into mistruth by way of pressing a point [November].

Beckmann asserts that "the average light-water reactor has an efficiency very close to the average coal-fired plant." I marvel at this news. In the course of graduate study in energy conversion, I learned that coal-fired plants have a Carnot (ideal) efficiency of almost 80 percent... of which about 40 percent is realized. Nuclear heat sources, however, must operate at cycle peak temperatures low enough to prevent core meltdown. This limitation gives a nuclear Carnot efficiency of about 70 percent...of which only some 32 percent is realized. The net effect of these *realized* efficiencies is that nuclear plants reject 13 percent more waste heat into the environment than coal-fired plants of the same generating capacity. Furthermore, the application of advanced technology to coal-fired plants (e.g., MHD topping cycles) can yield realized efficiencies near 60-70 percent—whereas nuclear power plants seem pretty much limited to their present level of 30-35 percent. I might also add that such schemes involve sophisticated methods of refining combustion gases of impurities as a necessary step of the process, and that the mining of coal poses less of an environmental

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hazard than the mining of radioactive ores.

It is generally recognized among power engineers that nuclear reactors are not as thermodynamically efficient as coal-fired plants, in either an ideal or real sense. The economic attractiveness of nuclear power proceeds uniquely from its subsidized status as a government brainchild. In further consideration of the as-yet-unsolved problem of radioactive waste disposal, the ill-publicized accidents and close shaves already experienced with reactors, the vulnerability of nuclear plants to terrorist sabotage, and the emerging requirement for draconian national security measures by the government, I cannot understand why *any* libertarian would act the champion for nuclear power. It seems that Dr. Beckmann's fatal fascination with nuclear technology makes him unwilling to advise us of its dangerous consequences.

Mike Dunn
Carpinteria, CA

Dr. Beckmann replies: The efficiency of the average light-water reactor is 31 percent, that of the average fossil-to-electricity conversion (1974) is 32.53 percent, so that the heat rejection is about the same.

The best coal-fired plants achieve an efficiency of about 41 percent, the high-temperature-gas-reactor 39 percent, which is again very close. The world record for efficiency in thermal electricity generation is 51 percent and is held by the French *Phenix*, a plutonium breeder.

MHD is a technology in its infancy, which has not yet held up for more than a few hundred hours.

Mr. Dunn's statement that the mining of coal poses less of an environmental hazard than the mining of radioactive ores is false: For the same electric energy produced from the fuel, coal is more than 10 times more hazardous for accidental deaths and injuries, 50 times more hazardous for industrial diseases, and 5,000 times environmentally more damaging in terms of land disrupted by mining, see [1] for details.

His remaining statements are equally reckless. Radioactive waste disposal being an unsolved problem is a hoax often repeated, but a hoax nevertheless, see [2]. Government subsidy was not at issue; even so, the nuclear industry is no more subsidized than other energy industries, and far less than coal.

If Mr. Dunn had done his homework of comparing "dangerous consequences" of all sources of electric power instead of letting himself be scared by the nuclear bogey alone, he would find that sabotaging a nuclear plant is not only incomparably more difficult, but also far less lethal than blowing up one of the several hydroelectric dams above us cities; he would also find a toll of about 30,000 deaths per year in the United States due to fossil-fired and hydro-power, and that nuclear power can significantly reduce that toll.—**P.B.**

[1] P. Beckmann: *The Health Hazards of Not Going Nuclear*, Golem Press (Box 1342, Boulder, CO 80306), 1976.

[2] B. L. Cohen: "The Disposal of Radioactive Wastes from Nuclear Fission Reactors," *Scientific American*, June 1977.

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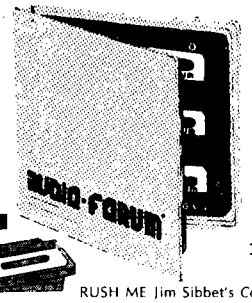

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Sell Your Advice, Stop Giving It Away (or keeping it to yourself)

Steve Nowlin

At one time or another you have probably found yourself working in a dead-end job for a person who simply refused to recognize your talents and who would do everything he could to show you how smart he was and who was boss.

Knowing that you faced the same frustrating situation every day made it more difficult to go to work. You probably experienced that inner feeling of dissatisfaction with yourself and life in general. Deep down inside you knew there had to be a better way...an opportunity to really show what you could do.

Most people who find themselves in this situation do either of two things. They quit and are usually hired into another job with the same miserable conditions, or they just grit their teeth, develop their ulcers, and wait for their gold watch.

Well, I've got a better solution if you're the type of person who wants total involvement . . . not just a boring, unchallenging 8-5 routine.

Turn Your Knowledge Into Dollars

I've discovered that what ever it is you know...or can learn...someone else wants to know it...and that's exactly what I want to share with you. How to have a future free of all money worries by selling your advice.

What people most want in life is advice and every one of us has some unique "know-how" for which others are willing to pay. People are hungry to learn...without making all the mistakes of pioneering for themselves. You can save them time, money, and frustration because you'll know the pitfalls to avoid.

Anyone Can Become A Self-Proclaimed Expert

I don't care where you've worked...the White House, McDonald's, the Post Office, the New York Yankees, the Little Red Door, General Motors, UCLA, the Vatican, Mayo Clinic or the basement office at home...

I don't care what you've been . . . chef, secretary, corporate president, union organizer, stock clerk, college professor, maitre d' hotel, student, hospital administrator, admiral,street cleaner, mayor, or magician . . .

I don't care if you're white or black, male or female, a dragon-slaying 18-year-old or a still-at-it 70-year-old...you can start today showing others how to do something new, better, cheaper, faster, more profitably...you become the consultant...the counselor...the tutor...the advisor. You get paid $50 . . . $100 . . . and more per hour . . . part-time or full-time.

Yes, a ready clientele exists that is willing to pay for information on almost any conceivable subject, technique or "how-to" category *imaginable*.

And now, for the first time, there is a way for you to learn how to package and sell what you already know.

There's No Tedious Study

Thousands of people are willing to pay top dollars to have you tell them what's already in your head: How to design an office interior, write collection letters, set up a sales recruiting program, develop communications skills, increase production, authenticate art objects, establish security programs, do home canning, start a business, increase farming efficiency . . . It doesn't require genius and it doesn't require luck.

All you have to do is follow the step-by-step procedure as outlined in the copyrighted consulting system that I've written and you will be able to start next week (I started part time at home) providing a service that will help someone who is willing to pay you for the benefit of sharing your experiences, ideas, and techniques.

You'll read true stories about college professors doubling their incomes by working a few extra hours each week selling their advice, about retirees who are now making more money than they ever did working full-time . . . with less hassle . . . in an unstructured, pressure-free, consulting and counseling business; about ordinary people . . . housewives, factory workers, farmers, salesmen, ministers, insurance agents, students, artists . . . all who have learned how to turn their experience, hobbies, education, and know-how into a high-income, part-time or full-time business of their own.

You don't need any special training to use this system. It's easy to understand and simple to follow. Everything you'll need is included in this comprehensive course. My book shows exactly how you can do the following:

- how to have three to four days free every week and the money to enjoy yourself.
- start at home without any cash (*Forbes* magazine recently reported about one woman who makes $100,000 each year working out of her living room).
- how to copy any one of sixty-plus consulting techniques and pick up a cool $225 to $1,250 for one day's effort. Read actual stories about people like yourself who are selling their advice (not giving it away like so many people do).
- how to advertise and promote your consulting service (with actual ads to use as a guide). I've made thousands of dollars from one small classified ad . . . you will too!
- how to handle people who try to "pick your brain" for free.
- how to price your service (most beginners set their fees to low).
- put $5,000 to $15,000 and more in your pocket (after all expenses) by spending 5 hours on one Saturday chatting with a few people about how to do something you've already learned to do.

Just picture yourself getting paid big fees for doing what you like. Even your hobbies can be the basis for a consulting business. Can you image the prestige of being the expert to whom others come for advice? Imagine how great you would feel . . . what sense of power you would have . . . what kind of respect and admiration you would get . . . not to mention the enjoyment of a life free of all money worries.

As a bonus for ordering my book now, I'll send you absolutely free my 40 page special report. It's called "Group Consulting: How To Conduct and Promote Seminars, Courses, Schools, Workshops" and normally sells for $9.95. It shows you how I regularly net anywhere from $3,500-$8,000 from a single one-day seminar or workshop. This report includes registration forms, samples of my ads, and a complete portfolio of my sales literature that you can simply copy for your own use.

I personally guarantee that you'll be satisfied that my methods will help or I'll send your money back! Study each chapter. Put my system to work. Then, if you don't agree that this manual is exactly what you need to help you succeed, return it at the end of 30 days for full credit or refund. I'll even send your 13¢ stamp back for your trouble.

Mail to: Steve Nowlin
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Goleta, CA 93017

Mr. Nowlin: Please send me your "Consulting Book and Bonus" at the special price of just $14.95. I understand that I will either be completely satisfied, or that you will return my money in full including my 13¢ stamp. My payment is enclosed as follows:

☐ My check for $14.95
☐ Charge my credit card as shown below:
☐ VISA ☐ Master Charge

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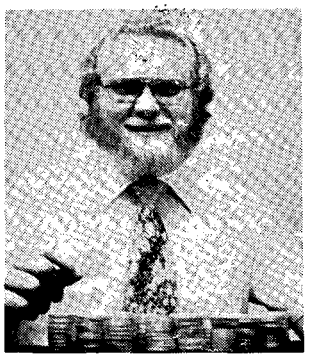
Customer Service Inquiries and Refund Requests should be addressed to Steve Nowlin, Box 88043, Indianapolis IN 46208.

MAVERICK INVESTOR GIVES AWAY FREE SILVER DOLLARS!



Walter Perschke

Walter Perschke will do anything to get you to try his unorthodox newsletter—so he's giving away brilliant uncirculated U. S. silver dollars minted in the 1880's. A $15 retail value! Walter knows that once you read his letter, you'll see how tremendously valuable his advice can be.

Walter Perschke has a mind of his own. During the 1970's, he shied away from traditional investments like stocks, bonds and savings accounts. Instead, he put his hard-earned money into rare coins, hard currencies and commodities.

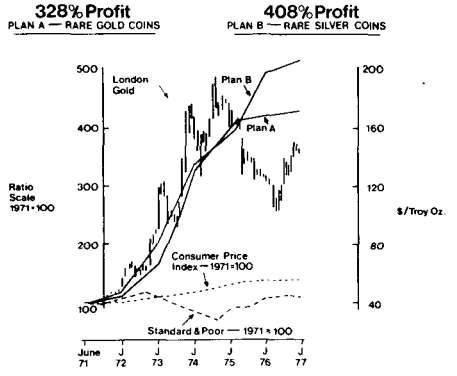
His maverick ideas have paid off handsomely, not only for him, but for the hundreds of people who followed his advice. Today, Walter has his own TV program ("Ask An Expert") in Chicago, owns a Rolls Royce and a yacht, and is president of one of the fastest growing coin companies in the world.

But don't think that success has spoiled Walter's sound advice. He is still a soft-spoken, shrewd investor who has an uncanny ability to make accurate predictions.

TWO PROVEN WAYS TO RICHES

Walter has a proven track record for both long-term and short-term profits. For the long term, he developed an affordable rare silver and gold coin portfolio which has continued to break profit records throughout the turbulent 70's.

Compare his rare gold coin program ("Plan A") and his rare silver coin program ("Plan B") with the stock market and consumer prices. (Note also how this rare coin program continued to increase in value even after gold faltered in 1975-76.)



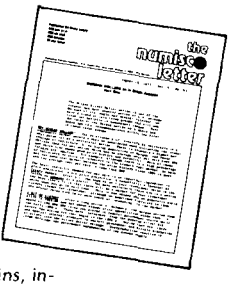
This rare coin portfolio is no "simulated" theoretical model based on hindsight. Walter personally invested his own money in these coins. Not all rare coins have made profits in the past few years. It takes more than guessing to choose the right coins for consistent appreciation. Walter's coin recommendations are based on his 15 years of experience in the numismatic market.

A SPECULATOR WITH GUTS

For the short term, Walter has been an extremely successful speculator. Here are indications of his foresight:

- After making substantial money in gold, Perschke recommended in late 1974, "if the price of gold goes below $180, investors would be wise to get out of positions." Many did, but those who didn't lost their shirts during the long bear market in gold.
- In January, 1975, he recommended shorting the British pound at $2.39. Eight months later, when the pound was near $2.00, he took profits of $9,750, a return of 390% on his investment.
- Over a three month period, he took profits of $8,900 on Mexican peso contracts—a return of 593%. (Walter was one of the few investors to get out before the devaluation in 1976.)
- When the Canadian dollar was selling over $1.01 in 1976, Walter said, "short sales of Canadian dollars are a low risk with moderate profit potential." Since then, the Canadian dollar fell to $.93, for a profit of 533% over 15 months.
- Perschke's investments are too numerous to list fully, but he has also made profitable trades in the grains, metals, and T-bills.

WHAT IS THE NUMISCO LETTER ALL ABOUT?



Walter's coin recommendations and trading techniques are published 24 times a year in the **Numisco Letter.** Of course, Walter doesn't pretend to have a perfect record in coins, currencies, and commodities. But your chances of making money are enhanced by looking at both the long term (coins) and the short term (commodities).

Rare coins: The Numisco Letter makes specific recommendations on gold and silver coins, including undervalued "sleepers" in U.S. proof sets, silver dollars, commemoratives, bullion coins and rarities. Walter even tells you what coins to avoid. **The Numisco Letter** also keeps you up-to-date on the value of commonly traded coins. These recommended coins are easily recognized in the rare coin field and can be bought and sold through dealers across the country in a matter of hours. Rare coins with a liquid market!

Currency and commodity markets: The letter makes specific recommendations twice a month—when to buy, when to sell, when to stand aside, how to keep your profits and minimize your losses. Markets covered include all major currencies, gold, silver, platinum, copper, interest rate futures, and others.

In addition, Walter frequently offers exclusive interviews with leading experts, which recently included Nobel Prize winner F. A. Hayek.

HOW TO GET YOUR FREE SILVER DOLLAR

Walter Perschke feels so strongly about his newsletter that he is willing to put his own money on the line. When you subscribe to the **Numisco Letter** at $48 (24 issues a year), he will send you a brilliant uncirculated U.S. silver dollar minted during the 1880's. The coin will be wrapped in a protective holder to preserve its rare beauty. Consider this the beginning of a very profitable relationship—your first step in insuring yourself against the ravages of today's inflation.

If after reading 4 issues, you are not absolutely delighted with the **Numisco Letter,** we will send you a full refund for the remaining issues. And the silver dollar is yours to keep—no questions asked.

If you don't care for a silver dollar, but wish to try the **Numisco Letter,** we are also offering a trial subscription of 4 issues for the low price of $10.

Remember: the future belongs to the shrewd investor who knows how to invest, when to get **in** and when to get **out.** These are the trademarks of the **Numisco Letter.** They are what have made Walter Perschke what he is today. Join him, and count the profits.

the numisco letter

175 W. Jackson Blvd., Suite A-640 Chicago, IL 60604

☐ I enclose $48 for a year's subscription (24 issues) of the **Numisco Letter,** the best newsletter in the country on rare coins, currencies, and commodities. Send me my brilliant uncirculated U.S. silver dollar minted in the 1880's. If after reading 4 issues, I am not completely satisfied, I can cancel my subscription and receive a full refund for the remaining issues. And I still keep the silver dollar—no questions asked.

☐ I don't care for the silver dollar, but I'm enclosing $10 for a trial subscription of 4 issues.

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